THE SOUTHLAND CORPORATION

1993 ANNUAL REPORT

COMPANY PROFILE

The convenience retailing industry began in 1927 when a Southland Ice Company employee met the needs of his customers by selling bread, milk and eggs from the steps of his ice dock. Today the company is the largest operator, franchisor and licensor of convenience stores in the world, with more than 14,100 stores in 20 countries carrying the 7-Eleven banner. (See inside back cover for listing of stores by country and by state.) With $6.8 billion in 1993 revenues, Southland is the 16th largest retailer in the United States.

IYG Holding Company (IYG) owns 64 percent of Southland's common stock. IYG is 51-percent owned by Ito-Yokado Co., Ltd., the fifth-largest retailer in the world, and 49-percent owned by Seven-Eleven Japan Co., Ltd., the longtime 7-Eleven licensee for Japan.

Southland's common stock is traded on the NASDAQ Small-Cap Market under the ticker symbol SLCMC.

The company is currently undertaking a total reformation, begun in 1991, of its convenience retailing operations. Because of customer awareness of the 7-Eleven name, Southland's large and geographically dispersed store base, the dedication of its employees, franchisees and licensees, and the financial strength of its majority owners, Southland is positioned to greatly increase the appeal of its stores to customers.

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FINANCIAL HIGHLIGHTS

(Dollars in Millions, Except Per-Share Amounts)	1993	1992	1991	1990	1989
FOR THE YEAR:					
Net Sales	$ 6,744.3	$ 7,425.8	$ 8,009.5	$ 8,347.7	$ 8,274.9
Other Income	69.9	73.6 (5)	73.8 (5)	60.1 (5)	43.9 (5)
Total Revenues	6,814.2	7,499.4	8,083.3	8,407.8	8,318.8
Net Earnings (Loss) (1) (2)	71.2	(131.4)	82.5	(276.6)	(1,306.9)
Net Earnings (Loss) Per Common Share (1) (2)	0.17	(0.32)	0.24	(13.93)	(64.76)
Capital Expenditures	195.1	88.6	69.9	39.6	105.2
Interest Expense (2)	94.6	123.6	189.3	459.5	572.2
AT YEAR-END:					
Common Shares Outstanding (in thousands)	409,923	410,022	410,022	20,481	20,504
Number of Stores Operated or Franchised by Southland in U.S. and Canada	5,796	6,167	6,491	6,705	6,920
Number of Stores Operated by Licensees or Affiliates in U.S. and Overseas	8,360	7,593	6,995	6,436	5,876
Shareholders of Record (3)	3,130	3,373	3,314	22	23
Number of Employees (Full-time and Part-time)	32,406	35,646	42,616	45,665	48,114
Shareholders' Equity (Deficit) (2)	$(1,248.4)	$(1,318.8)	$(1,210.3)	$(1,998.6)	$(1,715.8)
Book Value per Common Share (2)	(3.05)	(3.22)	(2.95)	(97.58)	(83.68)
Total Assets	1,998.7	2,044.8	2,607.7	2,813.6	3,445.8

(1) Net earnings (loss) for the years presented include the following:	1993	1992	1991	1990	1989
Loss on non-store assets sold (4)	$ (10.8)	$ (45.0)	—	$ (41.0)	—
Write-off of excess of cost over fair value of net assets acquired	—	—	—	—	$ (947.0)
Earnings from discontinued operations	—	—	—	—	69.4
Gain on debt restructuring	—	—	$ 156.8	—	—
Gain on debt redemption	99.0	—	—	—	—
Tax benefit from utilization of net operating loss carryforwards	—	—	—	52.0	—
Charge resulting from debt exchange	—	—	—	—	(56.0)
Cumulative effect of accounting change for postretirement benefits	—	—	—	(27.2)	—
Cumulative effect of accounting change for postemployment benefits	(16.5)	—	—	—	—
Severance and related costs	(7.2)	(17.5)	—	—	—
Gain (loss) on closings and dispositions of properties (4)	(48.2)	(44.3)	(14.4)	(14.4)	27.9

(2) The company is required to prepare its financial statements since completing the Restructuring in accordance with Statement of Financial Accounting Standards No. 15 (SFAS No. 15). Under SFAS No. 15, the liability for the company's restructured public debt as recorded on the balance sheet includes all future undiscounted cash payments, both principal and interest. For that reason, no interest expense will be recognized over the life of these securities, although the interest payments are tax deductible. The liability is reduced by the amount of the interest payments at the time they are disbursed. Those cash interest payments, which are paid semiannually, totaled $97 million during 1991, $65 million in 1992 and $56 million in 1993. As a result of the 1993 redemption of one class of the company's restructured public debt, such cash interest payments will total $35 million annually from 1994 through 1996, after which payments will decline because of bond maturations.

(3) The common stock began trading publicly on March 5, 1991, when the company emerged from a voluntary bankruptcy reorganization.

(4) Includes completed closings and dispositions, as well as those expected in the near future. The prior-year amounts have been updated to conform with 1993 methodology.

(5) Gains and losses on the sale of property, plant and equipment are presented in selling, general and administrative expenses in conformity with the 1993 presentation.

1993 marked many milestones for 7-Eleven. It was the first full year of net earnings (excluding extraordinary items, cumulative effects of accounting changes and other special or unusual items) since 1986, resulting in an approximately $67 million increase over last year. And with the divestiture of our last non-convenience retailing business, the year also underscored our undivided attention to 7-Eleven, the business we began over 65 years ago, and from which we intend to build a thriving future.

Southland's 1993 net earnings were $71.2 million, or $0.17 per share, compared with a 1992 net loss of $131.4 million, or ($0.32) per share. The year's results included, among others, several special or unusual items: a $99.0 million extraordinary gain on the redemption of the company's 12% Senior Notes; a $48.2 million charge related to store closings and disposition of properties; a $16.5 million charge related to the required adoption of a new accounting principle for postemployment benefits; a $10.8 million loss on the disposition of Southland's fixed-base operation, Citijet; and a $7.2 million charge for estimated severance and associated costs related to the company's ongoing efforts, begun in 1992, to reduce costs and improve organizational effectiveness.

Revenues of $6.8 billion were down 9.1 percent from 1992, due to approximately 380 fewer convenience stores, the sale of our distribution and food centers in 1992, and lower same-store merchandise sales (sales at stores open more than one year). Same-store merchandise sales trends showed steady improvement throughout the year; however, they were still somewhat weaker than expected, reflecting the continuing implementation of 7-Eleven's everyday fair pricing, the temporary closing of stores for remodeling, and cigarette deflation that resulted from lower wholesale costs and subsequent retail reductions. Because of these factors, same-store merchandise sales decreased 2.7 percent for the year, producing negative real growth of 4.7 percent after adjusting for 7-Eleven-specific inflation of 2.2 percent.

The company's profitability improved in 1993, despite reduced revenues, primarily due to a strong contribution from 7-Eleven's retail gasoline business, lower interest expense and ongoing reduction of operating, product and overhead costs.

We also achieved significant progress in several key areas. We:

— reduced our cost of capital through greater use of commercial paper, a new bank loan and the redemption of our 12% Senior Notes — saving $18 million in annual cash interest payments;

— secured upgrades of the company's public debt by Standard & Poors, which raised ratings from B and B+ to BB+ and gave an implied investment grade rating of BBB- to our senior secured debt;

— completed the remodeling of an additional 1,430 7-Eleven stores, so that 25 percent of the stores we operate or franchise now feature the brighter, more open look of the "new 7-Eleven;"

— achieved significant cost reductions by eliminating redundant activities, outsourcing functions not directly related to convenience retailing, and continuing to work with manufacturers and suppliers to drive unnecessary costs from our system;

— began developing and implementing, with a number of corporate partners, a state-of-the-art retail automation system that, over the next few years, will provide 7-Eleven store operators with more and better information to support store-by-store, item-by-item merchandising and other business decisions;

— formalized plans and selected the companies to build, operate and supply our Dallas fresh-food commissary and combined distribution center, scheduled to begin operation in March 1994; and,

— continued fine-tuning 7-Eleven's new business processes, emphasizing more focused, "hands-on" merchandising training for field management, franchisees, store managers and their employees, and developing communications systems to support faster, more streamlined, customer-focused decision making.

The concepts and processes we are implementing support our vision to achieve continued sales and profit improvement by focusing on 7-Eleven customers' rapidly changing needs, market by market, store by store, and item by item. We have made important progress this year and are convinced our new concepts are taking us in the right direction.

Our vision is critical to the revitalization of 7-Eleven for several reasons. First, it puts the emphasis on the customer — where it belongs. Second, it recognizes that we cannot profitably meet the expectations of six million customers a day without item-by-item product control. Third, it eliminates unnecessary costs from the system.

We are working to provide customers with higher-quality products at a fair price by developing proprietary processes, such as our fresh-food commissaries, combined distribution centers and retail automation system, together with carefully chosen companies that have specialized expertise critical to the success of these processes.

For example, with an alliance of companies that are providing hardware, software and communications expertise, over 70,000 hours have been invested in the initial planning, designing and testing of an innovative retail automation system for 7-Eleven stores in the U.S. and Canada. When all phases are installed in approximately four to five years, it will be a fully integrated, closed-loop, merchandising-focused system that provides our store operators, as well as our partners in manufacturing and distribution, more and faster information for use in making better decisions and driving down costs. The first phase, which will begin rolling out in early 1994, will automate basic store accounting tasks such as payroll and cash reports, and familiarize store operators with computers.

Perhaps our biggest challenge in 1994 will be to convert ideas into action by providing franchisees, store managers and their staffs the training they need to implement the 7-Eleven Business Concept. One way we are doing that is through the "University of 7-Eleven." In February 1994, the entire 1,000-member 7-Eleven field, corporate and licensee management team assembled in one location to learn the policies, tools and techniques that will drive 7-Eleven's future success. In turn, they have been charged with coaching each franchisee, store operator and their staffs on how to properly implement those same merchandising practices through training in "model" stores located in each market.

Returning the company to profitability in 1993 was an important achievement. In 1994, we will continue to develop and improve the key processes driving 7-Eleven's transformation to a more customer-focused store. Relentless development and results-oriented execution of key merchandising skills in each store will be a top priority. In addition, we plan to complete at least 1,000 more remodels, begin rolling out our fresh-food commissary and combined distribution center concepts, and continue implementing the accounting-support phase of 7-Eleven retail automation. We expect the strategies associated with the new 7-Eleven Business Concept to contribute to improved results for 1994.

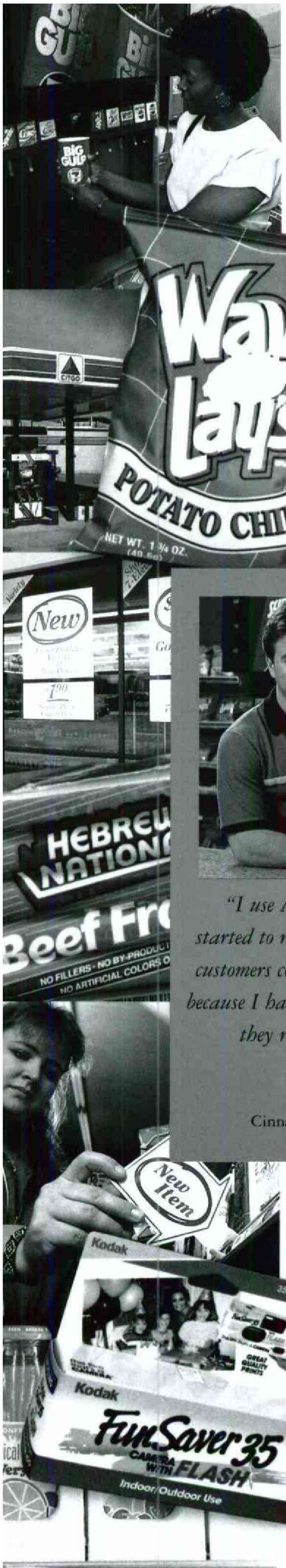
We are especially grateful to the thousands of people who are helping to shape our vision of the "new 7-Eleven" — franchisees, employees and licensees, as well as our valued suppliers, distributors, other corporate partners and majority shareholders. With their and your continued support, we will achieve our singular goal of better serving our customers, and we look forward to reporting significant progress in 1994.

Sincerely,

Clark Matthews

Clark J. Matthews, II
President and Chief Executive Officer

March 22, 1994



"I use AIM and have started to realize I have more customers coming in the store, because I have more of the items they really want."

Tom Greaney
Franchisee
Cinnaminson, New Jersey

OPERATIONS REVIEW

At year-end 1993, Southland had 5,679 7-Eleven stores in the U.S. and Canada. Approximately half were operated by franchisees, and sales from these stores were included in the company's total revenues. Total revenues of $6.8 billion also included other income of $69.9 million, comprised primarily of royalties from 7-Eleven area licensees and interest income. Area licensees and affiliates operate 7,667 stores in 19 other countries and two U.S. territories, as well as 693 stores in the U.S. (see inside back cover).

7-Eleven is committed to being the best at serving the rapidly changing needs and preferences of convenience-oriented customers. To accomplish this, over the past two years employees and franchisees have been working to implement and constantly improve the 7-Eleven Business Concept — making sure that each store offers customers a broad **selection** of **quality** products and services at fair **prices**, a quick transaction (**speed**), in a clean, safe and friendly store **environment**. Consistent, thoughtful application of these principles to every 7-Eleven business decision is changing the way the company does business, as illustrated below in the descriptions of progress the company made in 1993.

SELECTION

7-Eleven's Accelerated Inventory Management (AIM) process is one way stores are providing customers a better selection of the products they want. Introduced in 1992, AIM focuses on the importance of ordering as the means to more effectively merchandise each store for its individual customers. Using AIM, store operators and their staffs have a tremendous opportunity to build sales through constant deletion of slow-moving items and aggressive addition of new items that meet the needs of each neighborhood store's customers. In addition, order forecasting helps stores stay in-stock on the fastest-selling items, reducing lost sales opportunities due to out-of-stock items.

Individual store operators using AIM have more direct responsibility for managing the product mix in their particular store. This is important because they are 7-Eleven's point of contact with its customers. Each store balances its merchandise selection to include "core items" — products customers would expect to find in any 7-Eleven store — and "by-store" items, customized to each store with local customer needs and preferences

in mind. Ethnic products, special-interest items such as "fitness foods" and corporate-branded merchandise all lend themselves to the concept of providing the right selection of products on a store-by-store basis.

A constantly changing selection of new products is just as important to 7-Eleven's ability to attract and satisfy customers as having a dependable array of staple items. Over 1,800 new items were made available in 1993, including many new products in the early stages of their life cycle. New products are less susceptible to discounting pressure than more established, widely available items. In addition, the new-item process, a key component of AIM, enables stores to benefit from manufacturers' new-product-introduction advertising and allows 7-Eleven to capture the growth opportunities of successful new products.

Just as a broad selection of products is important for satisfying convenience-oriented customers, so is the layout of each store. Placement of merchandise is critical to buying patterns, which is why store operators invest considerable time using a repositioning tool called a "flexible plan-o-gram." Flexible plan-o-grams allow store operators to adjust their product display to meet customers' needs while accommodating a constantly changing selection of new products. They also maximize sales and profits by displaying merchandise in a more appealing, organized manner that makes it easier to shop.

QUALITY

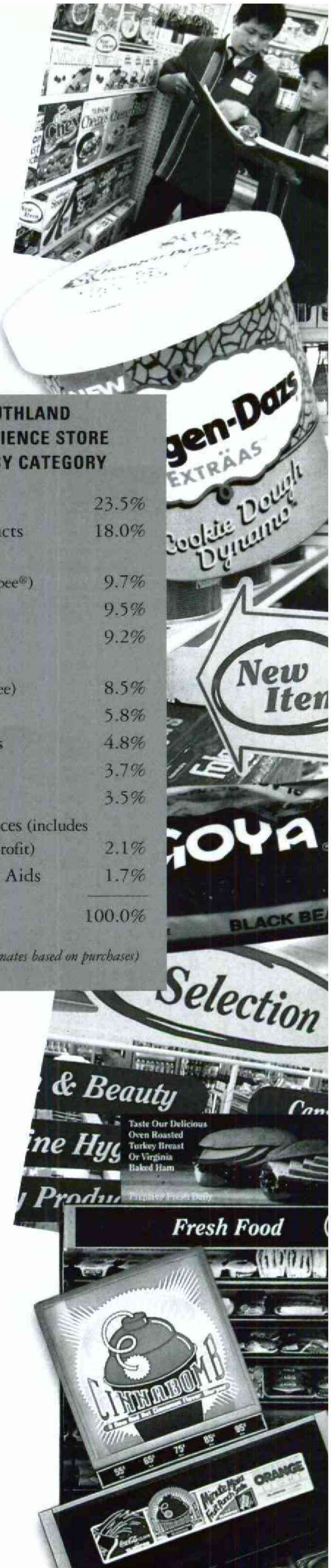
Over and over again, customers tell us they want high-quality products, at the best possible value. The development of 7-Eleven's fresh-food commissary and combined distribution center (see page 7) concepts addresses those needs. The combined distribution centers will supplement existing distribution of warehouse items with daily delivery of perishable products to each store, improving freshness and expanding the selection of products available to 7-Eleven customers.

Likewise, fresh-food commissaries will satisfy convenience-oriented customers' desires for a better variety of high-quality, ready-to-eat items at reasonable prices. In fact, that was the focus in the Austin "laboratory market" this year as 7-Eleven joined with several highly reputable companies in the foodservice industry, including Dole Food Company,

SOUTHLAND CONVENIENCE STORE SALES BY CATEGORY

Gasoline	23.5%
Tobacco Products	18.0%
Soft Drinks (includes Slurpee®)	9.7%
Beer/Wine	9.5%
Groceries	9.2%
Food Service (includes coffee)	8.5%
Non-foods	5.8%
Dairy Products	4.8%
Candy	3.7%
Baked Goods	3.5%
Customer Services (includes lottery gross profit)	2.1%
Health/Beauty Aids	1.7%
Total	100.0%

(Percentages are estimates based on purchases)



"Quality doesn't just mean the product. It means the whole organization... the products, the environment in the store, the whole customer experience."

Derek Schmitt
Field Consultant
Austin, Texas

Kraft General Foods, and Vie de France Bakery, to develop and test a proprietary fresh-food commissary process. As a result, the first commissary outside the test market is scheduled to begin operating this spring in Dallas, Texas, with others planned for later in the year.

The success of fresh-food commissaries will depend on their ability to consistently provide high-quality products every day in every store, as well as effective forecasting and ordering by store operators and their employees. That's the reason the company is emphasizing additional hands-on training of AIM's merchandising and inventory management fundamentals. Store operators and their staffs who understand these concepts will be able to order more effectively, which is critical to being in-stock on fast-selling items and minimizing write-offs.

To address these and other merchandising challenges, the company developed the "University of 7-Eleven" concept of consistent, centralized training supported by local-market coaching of franchisees, store operators and their employees in market-specific "model" stores. This training will ensure that they understand and learn how to effectively provide what customers demand; fast, friendly customer service, everyday fair prices, and the right amount and selection of quality products. It also will stress consistent, high image standards along with proper and thorough implementation of the AIM process, including the importance of involving store staff in the order forecasting process.

Proprietary products continued to be popular with customers this year. In fact, 7-Eleven's "Cafe Select" line of flavored coffee, introduced in 1993, exceeded expectations and won even more 7-Eleven coffee fans. Over the course of the year, Cafe Select sales were *double* those of 7-Eleven's decaffeinated coffee — quite an achievement, considering 7-Eleven is the largest retailer of fresh-brewed decaffeinated coffee in the U.S. In addition, for those customers who want high quality at lower prices, the company successfully tested a line of corporate-branded soft drinks this year in its Florida market. It is now exploring corporate branding of other selected products, but only those that meet or exceed the quality of comparable major-brand merchandise and provide a better value to 7-Eleven customers and acceptable margins.

PRICE

Changing 7-Eleven's pricing image is also critical to the success of its new business concept. Customers repeatedly cite perceptions of high prices as the principal reason they limit their shopping, or don't shop, at convenience stores. To change those perceptions, 7-Eleven continues to refine its everyday-fair-price strategy, which was begun in 1992, by eliminating both the high and low extremes of past pricing — sacrificing some sales by migrating away from sporadic deep discounting, but lowering prices on other items to provide consistent, competitive prices throughout the store.

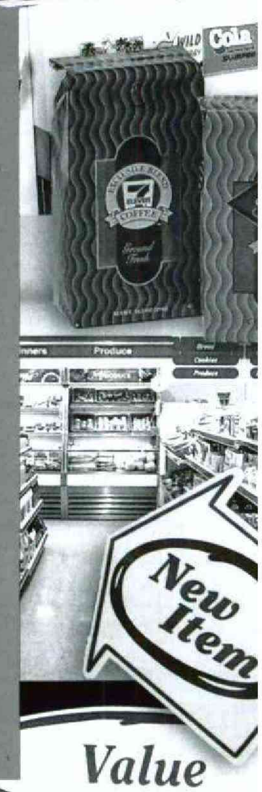
This is especially important as customers become more value conscious. As a result, the company is continuing to explore ways it can drive profitable sales by eliminating unnecessary costs from its operating systems and overhead. By working with suppliers to lower costs, 7-Eleven will be able to provide better value to its customers and maintain reasonable margins.

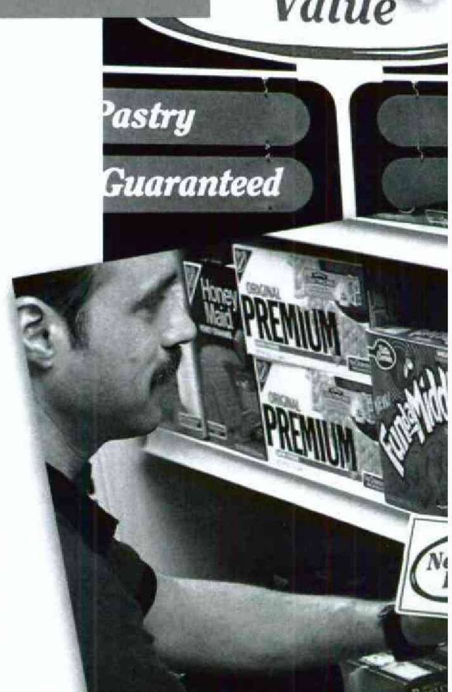
Developing the combined distribution center (CDC) concept is a good example of how 7-Eleven can reduce costs, increase efficiency and provide customers the freshest, high-quality products at lower prices. CDCs are similar to "cross-dock" distribution methods in which goods are not stored, but merely "cross the dock" from supplier to shipper enroute to their final destination. They will enable 7-Eleven suppliers to reduce costs, while ensuring maximum freshness, by facilitating one delivery of perishable products to a single location instead of to each individual store, and in precisely the quantities stores order for each day. Products from multiple vendors are then "combined" for daily delivery to hundreds of stores by distribution experts.

Distribution service for warehouse-delivered items will continue to be made available to 7-Eleven stores nationwide by McLane Company, Inc. However, daily distribution by CDCs of freshness-sensitive items, including 24-hour-coded products, will greatly expand 7-Eleven's product quality and selection. In addition, consolidation of multiple deliveries by the CDC in each market will reduce store parking lot congestion and free store operators to spend more time on merchandising and customer service by minimizing interruptions.

"If you come into my 7-Eleven store you get the merchandise you want at a reasonable price... my customers have noticed the difference."

Roland Bernabe
Franchisee
Suburban Los Angeles, California





ENVIRONMENT

The right store environment is as important to building customer satisfaction as fair pricing, efficient distribution of fresh, quality products and targeted merchandising. Late in 1992, 7-Eleven embarked on a program to remodel all of its stores across the country and in Canada over a four- to five-year period. Another 1,430 remodels were completed in 1993, bringing the total to over 1,500, with 1,000 more scheduled for 1994.

The remodeled stores feature lighting upgrades inside and out, consistent 7-Eleven signage, as well as less cluttered, lower shelves, wider aisles and aisle markers that make it easier for customers to locate products they want. Many remodeled units also include new equipment for displaying and dispensing 7-Eleven's selection of products. In addition, most remodeled stores selling gasoline now have larger canopies, faster gasoline dispensing capability, environmental upgrades and pay-at-the-pump credit-card readers.

Installation of new security systems are another important addition to an improved environment in 7-Eleven stores and include a 24-hour, closed-circuit video camera with monitoring capabilities and alarm activating devices. These, along with the enhanced lighting and larger canopies over gasoline service areas, help provide a safe and convenient shopping experience and a secure work environment for store personnel and customers.

In December the company introduced its "So Many Changes, It's Not Even Funny" advertising campaign in selected markets to let customers know about 7-Eleven's new lower prices, as well as the broader product selection and more customer-friendly shopping environment in each remodeled store. Most of 1994's advertising will focus on what's changed at 7-Eleven.

"The month after we remodeled the store was the busiest month we've ever had... afterwards, customers kept asking how we made the store so much bigger."

Karen Drapinski
Franchisee
Troy, Michigan

SPEED

Several important improvements were initiated in 1993 to enhance speed of service to 7-Eleven customers, such as scheduling labor to coincide with fluctuations in customer traffic throughout the day. To accomplish this, a labor-forecasting process was designed to efficiently and effectively schedule store personnel to best serve the customer. The process was developed by a cross-functional team of store operators, field consultants, market managers and corporate staff with the goal of improving the transaction speed by enabling store operators to better predict labor needs on a store-by-store, day-by-day, hour-by-hour basis.

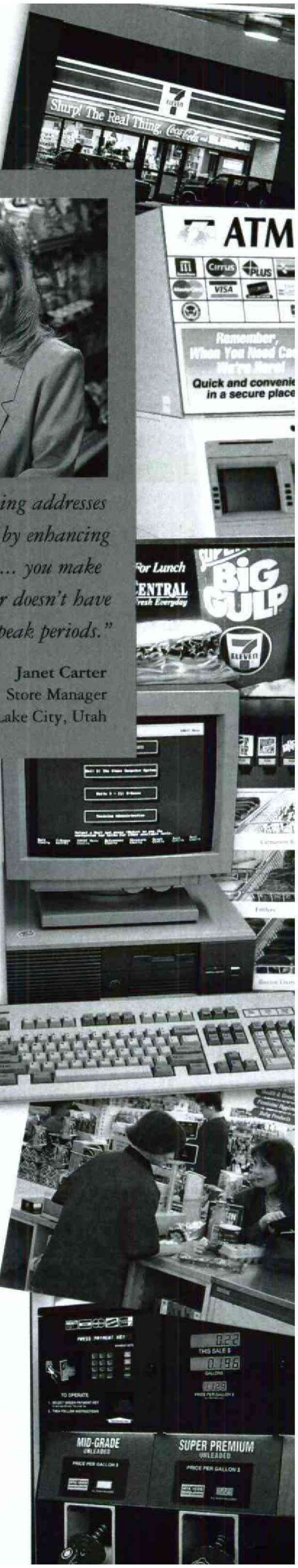
A more visible improvement was the continued addition of automated teller machines (ATMs) in many stores. More than 2,300 7-Eleven stores now offer ATM units for customers who need a reliable source of fast cash in a safe environment. As many as 4,000 stores throughout the U.S. and Canada are expected to offer the convenience of ATM service within the next three years.

Another significant improvement to speed gasoline purchases is the installation of credit-card readers at 7-Eleven gasoline pumps. Customers get quicker service by being able to pay at the pump, and in-store customers have the convenience of faster service. In addition, merchandise sales have increased at those stores where credit-card readers have been installed. Currently, these units are installed in approximately 30 percent of 7-Eleven gasoline stores in the U.S. An additional 200 are scheduled to be installed in 1994, for an estimated total of 700 units by the end of 1994.

Behind the scenes, 7-Eleven began working on its retail automation system, with the assistance of corporate partners like Electronic Data Systems Corporation, AT&T Global Information Solutions, Canmax Retail Systems, Inc. and several other well-known information systems providers. The system's first phase, which will automate certain store-level accounting functions, is now being installed. When all phases are completed in approximately four to five years, the fully integrated system will provide store operators, suppliers and distributors real-time information to support improved decision making and automate certain in-store merchandising tasks.

"Labor forecasting addresses customer service by enhancing speed of service... you make sure the customer doesn't have to wait during peak periods."

Janet Carter
Store Manager
Salt Lake City, Utah



(Dollars in Millions, Except Per-Share Data)	Years Ended December 31 1993	1992	1991	1990	1989
Net sales	$ 6,744.3	$ 7,425.8	$ 8,009.5	$ 8,347.7	$ 8,274.9
Other income	69.9	73.6(c)	73.8(c)	60.1(c)	43.9(c)
Total revenues	6,814.2	7,499.4	8,083.3	8,407.8	8,318.8
LIFO charge (credit)	(8.7)	1.5	(7.2)	27.9	2.8
Depreciation and amortization	154.4	180.3	200.1	227.6	276.7
Interest expense	94.6(a)	123.6(a)	189.3(a)	459.5	572.2
Loss from continuing operations before income taxes	(2.6)	(119.9)(d)	(66.3)	(430.0)(f)	(1,332.3)(h)
Income taxes (benefit)	8.7	11.5	8.0	(128.5)	(12.0)
Loss from continuing operations	(11.3)	(131.4)	(74.3)	(301.5)	(1,320.3)
Loss before extraordinary items and cumulative effect of accounting changes	(11.3)	(131.4)	(74.3)	(301.5)	(1,250.9)(i)
Net earnings (loss)	71.2(b)	(131.4)	82.5(e)	(276.6)(g)	(1,306.9)(j)
Earnings (loss) per common share (primary and fully diluted):					
From continuing operations:	(0.03)	(0.32)	(0.22)	(15.14)	(65.41)
Before extraordinary items and cumulative effect of accounting changes:	(0.03)	(0.32)	(0.22)	(15.14)	(62.02)
Net earnings (loss) applicable to common shares:	0.17	(0.32)	0.24	(13.93)	(64.76)
Total assets	1,998.7	2,044.8	2,607.7	2,813.6	3,445.8
Long-term debt, including current portion	2,419.9(a)	2,560.4(a)	3,037.1(a)	3,705.2	4,149.5
Redeemable preferred stock	—	—	—	148.5	139.7

(a) The Restructured Debt Securities are accounted for in accordance with SFAS No. 15 as explained in Note 9 to Consolidated Financial Statements.

(b) Net earnings include an extraordinary gain of $98,968,000 on debt redemption and a charge for the cumulative effect of an accounting change for postemployment benefits of $16,537,000 as explained in Notes 9 and 13 to Consolidated Financial Statements, respectively.

(c) Gains and losses on the sale of property, plant and equipment are presented in selling, general and administrative expenses in conformity with the 1993 presentation.

(d) Loss from continuing operations before income taxes includes a $45,000,000 loss on the sale and closing of the distribution and food centers as explained in Note 6 to Consolidated Financial Statements.

(e) Net earnings include an extraordinary gain on debt restructuring of $156,824,000 as explained in Note 9 to Consolidated Financial Statements.

(f) Loss from continuing operations before income taxes reflects a loss of $41,000,000 on Cityplace assets sold.

(g) Net loss includes an extraordinary tax benefit from utilization of net operating loss carryforwards of $52,040,000 and a charge for the cumulative effect of an accounting change for postretirement medical benefits expense of $27,163,000.

(h) Loss from continuing operations before income taxes reflects the write-off of $946,974,000 of excess of cost over fair value of net assets acquired.

(i) Loss before extraordinary items and cumulative effect of accounting change includes earnings from a discontinued operation (Citgo) of $69,410,000.

(j) Net loss includes an extraordinary charge of $56,047,000 resulting from a debt exchange.

INTRODUCTION

The Company's net earnings for 1993 were $71.2 million ($.17 per share) compared to a net loss of $131.4 million (-$.32 per share) for 1992. Both years' results included a number of special or unusual gains and losses, and those items recorded in 1993 include among other things:

- an extraordinary gain of $99.0 million, from redemption of the Company's 12% Senior Notes ("12% Notes"), which were refinanced in August 1993;
- a $48.2 million loss for store closings and dispositions of properties;
- a $16.5 million charge for the cumulative effect of an accounting change for postemployment benefits as required by Statement of Financial Accounting Standards ("SFAS") No. 112;
- a loss of $10.8 million for the disposition of Citijet, a fixed-base operation at Dallas Love Field Airport; and
- a $7.2 million charge for severance and related costs.

The Company's net loss in 1992 included:

- a one-time $45 million pretax loss on the sale and closing of the Company's distribution and food processing centers;
- a $44.3 million loss (determined in accordance with 1993 methodology) for store closings and dispositions of properties; and
- a $17.5 million charge for severance and related costs.

LIQUIDITY AND CAPITAL RESOURCES

On August 30, 1993, the Company redeemed its 12% Notes due on December 15, 1996, at par value plus accrued interest. The 12% Notes, which had an outstanding face value of $250.6 million, were refinanced with working capital and an additional $150 million term loan under the existing senior bank credit agreement (the "Credit Agreement"). The additional loan has a three-year term with no required principal payments until its maturity, and a floating interest rate of LIBOR plus 2.5%. As part of the refinancing, the Company amended the Credit Agreement to permit the redemption, and to modify and extend existing financial covenants through August 1996.

The Company recognized a one-time non-cash extraordinary gain of $99.0 million on the redemption of the 12% Notes in the third quarter of 1993. Because Southland is required to account for its public debt issued in the 1991 restructuring in accordance with SFAS No. 15, the liability recorded on the balance sheet for that debt includes all future undiscounted cash payments, both principal and interest. At their redemption, the book value of the 12% Notes was $355.8 million, of which approximately $99.0 million related to future SFAS No. 15 interest payments. As a result of the refinancing, at current interest rates the Company expects to save up to $18 million in annual cash interest payments. However, since interest on the additional term loan is not subject to SFAS No. 15 treatment, it will be expensed and, therefore, at current interest rates the Company's reported interest expense will increase by an estimated $13 million per year.

The Company believes that it will have adequate liquidity going forward from its $400 million commercial paper facility (guaranteed by Ito-Yokado Co., Ltd.) and from its revolving credit facility under the Credit Agreement ("the Revolver"), which, respectively, had outstanding balances of $391.2 million and $15.0 million on December 31, 1993, and from its operating cash flow. The Company's cash availability from the Revolver is limited to $25 million until $375 million of commercial paper is outstanding, and thereafter to the lesser of $150 million or the difference between $275 million and the amount of letters of credit outstanding. As of December 31, 1993, outstanding letters of credit totaled $116.7 million.

The Credit Agreement contains numerous financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including cash interest coverage, fixed charge coverage, total debt ratio and senior indebtedness to subordinated indebtedness. The covenant levels established by the Credit Agreement generally require a continuing improvement in the Company's financial condition. In addition, the Credit Agreement requires the attainment of certain levels of EBITDA (defined in the Credit Agreement as earnings before interest income and expense, income taxes, depreciation and amortization, the monetized royalty income from the Company's area licensee in Japan (see Note 9 of "Notes to Consolidated Financial Statements"), certain other unusual income and expense items and certain other noncash items).

For the period ended December 31, 1993, the Company was in compliance with all of the covenants required under the Credit Agreement. The Company complied with the principal financial covenants, which are calculated over the latest 12-month period, as follows: cash interest coverage (including the effect of the SFAS No. 15 interest payments) was 2.08 to 1.00, higher than the 1.65-to-1.00 minimum; fixed charge coverage was 1.34 to 1.00, higher than the 0.99-to-1.00 minimum; total debt ratio was 9.28 to 1.00, lower than the 12.28-to-1.00 maximum; senior indebtedness to subordinated indebtedness was 1.38 to 1.00, lower than the 1.58-to-1.00 maximum; and EBITDA was $264.6 million, higher than the $240.9 million minimum.

The Credit Agreement also places limitations on the levels of allowable capital expenditures for the year. For the period ended December 31, 1993, the Company's capital expenditures (excluding for purposes of the calculation certain items as permitted under the Credit Agreement) were $192.3 million compared to the maximum allowed for the year of $247.5 million.

CASH FLOWS FROM OPERATING ACTIVITIES

During 1993, net cash provided by operating activities was $232.1 million. This amount included cash flow from a $16.3 million reduction in inventories due principally to fewer operating stores and the reduction in cigarette and wholesale gasoline costs.

CASH FLOWS FROM INVESTING ACTIVITIES

During 1993, net cash used in investing activities consisted primarily of payments of $195.1 million for property, plant and equipment, the majority of which was used for remodeling 1,430 stores, upgrading retail gasoline facilities, replacing equipment and enhancing underground storage tanks. The Company expects 1994 capital expenditures to be approximately $185 million, primarily to complete remodels started in 1993 and to remodel approximately 1,000 additional stores. The 1994 average per-store capital expenditures and associated upfront expenses will be reduced compared to 1993.

The Company anticipates that it will spend approximately $18 million in 1994 on capital improvements required to comply with environmental regulations relating to gasoline storage tank systems at store locations and approximately an additional $17 million on such capital improvements from 1995 through 1997.

Additionally, the Company accrues for the anticipated future costs of environmental clean-up activities (consisting of contamination assessment and remediation) relating to detected releases of regulated substances at its existing and previously operated sites at which gasoline was sold (including store sites and other facilities that have been sold by the Company). The Company expects that it will be required to spend approximately $60 million during the next five years to undertake such activities. This estimate is based on the Company's prior experience with gasoline sites and its analysis of such factors as the age of the tanks, location of tank sites and its experience with contractors who perform contamination assessment and remedial work. However, the Company is eligible to receive reimbursement for a large portion of these remediation costs under state reimbursement programs.

At December 31, 1993, the Company's accrued liability for sites where releases have been detected was $59,153,000. The Company has recorded a receivable of $57,532,000 (net of an allowance of $12,529,000) for the estimated probable state reimbursements. The estimated future remediation expenditures and related state reimbursement amounts could change as governmental requirements and state reimbursement programs change in future years.

The Company anticipates that substantially all of the future remediation costs for sites with detected releases of regulated substances at December 31, 1993, will be incurred within the next five years. There is no assurance of the timing of the receipt of state reimbursement funds. However, based on the Company's experience, the Company expects to receive state reimbursement funds within one to three years after incurring eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. The Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection and Energy (the "State"), which provides for remediation at the site as well as continued groundwater monitoring for a number of years. While the Company has received initial comments from the State, a final clean-up plan has not been determined. At December 31, 1993, the Company adjusted its accrued liability to $38,879,000, its best estimate of the clean-up costs.

In 1991, the Company entered into a settlement agreement with a large chemical company that formerly owned the chemical manufacturing facility. Under the settlement agreement, the former owner agreed to pay a substantial portion of the clean-up costs described above. The Company has recorded a receivable of $22,800,000 at December 31, 1993, representing the former owner's portion of the accrued clean-up costs.

None of the amounts related to environmental liabilities have been discounted.

In November 1992, the McLane Company, Inc., ("McLane"), acquired certain of the Company's distribution and food center assets. In addition, Southland ceased operations in December 1992 at its distribution and food centers in Orlando, Florida, and Tyler, Texas, and in April 1993 at Champaign, Illinois. The Company sold its facility in Orlando in November 1993, and is in the process of selling its facility in Tyler in 1994. It has sublet and, in December 1994, will sell its facility in Champaign. These transactions did not have a material impact on 1993 earnings, since they were included in the $45 million loss recognized in 1992 resulting from the sale to McLane and related plant closings. During 1993, the Company benefitted from lower cost of products purchased under the supply agreement entered into with McLane. In addition to the $141.8 million in gross proceeds received from the above-mentioned transactions in 1992, $44.9 million of cash was received in 1993 primarily from the sale of inventories to McLane.

In 1993, the Company disposed of its last non-convenience-retailing business, the Citijet fixed-base operation at Dallas Love Field Airport, and recognized a loss of $10.8 million on the transaction.

CASH FLOWS FROM FINANCING ACTIVITIES

In August, the Company redeemed $250.6 million face amount of its 12% Notes and paid $6.2 million of SFAS No. 15 interest payable on those Notes from the prior interest payment date to the date of redemption. The redemption was financed with working capital and an additional $150 million term loan (see Liquidity and Capital Resources section). Including the above-mentioned payment, in 1993 the Company paid $56.5 million of interest on all of its public debt subject to SFAS No. 15. During 1993, the Company repaid $96.1 million on certain secured indebtedness, consisting primarily of $58.9 million on the senior term loan under the Credit Agreement (the "Term Loan").

RESULTS OF OPERATIONS — TWELVE MONTHS ENDED DECEMBER 31, 1993

The Company recorded net sales of $6.74 billion for the year ended December 31, 1993, compared to net sales of $7.43 billion in 1992. The decline is primarily due to approximately 380 fewer convenience stores in 1993, the late-1992 disposition of the Company's distribution and food center assets, which contributed $269 million in outside sales in 1992, and cigarette price reductions on certain premium brands associated with manufacturers' cost reductions. Same-store (stores open more than one year) merchandise sales decreased 2.7% in 1993, compared to a decrease of 3.9% in 1992, before adjusting for the effects of inflation in both years. Without the estimated deflationary effect of cigarette price decreases in the second half of 1993, same-store sales for the 12 months of 1993 would have decreased 1.3%, and for the last six months of 1993 would have been flat compared to 1992. 7-Eleven experienced an annualized inflation rate of 2.2% in 1993, compared to 1.9% in 1992. Merchandise sales adjusted for inflation have declined since early 1989 because of competitive pressures and the recession, as well as the Company's strategic decision in 1992 to reduce discounting and promotional activities in favor of an everyday-fair-price strategy. However, this negative trend began to reverse in 1993 and showed improvement over the course of the year.

Gasoline sales per store increased 9.1% in 1993 due to per-store volume improvement of 11.1%, reflecting favorable market conditions as well as the impact of several successful business strategies: ongoing remodeling to enhance the appeal and convenience of the Company's gas facilities; promoting the high quality of 7-Eleven's CITGO-brand gasoline; managing gasoline prices, inventories and product mix on a by-store basis; and the closing of low-volume locations.

Other income of $69.9 million in 1993 consisted primarily of royalties from area licensees, principally Seven-Eleven Japan Co., Ltd.

Consolidated gross profits were $1.57 billion for 1993, $32.4 million below 1992, reflecting lower merchandise gross profits because of fewer stores, and lower same-store merchandise sales. However, merchandise gross profit margins increased 1.16 percentage points over 1992 levels because of the Company's everyday-fair-price strategy that minimizes discounting and promotional activities, lower cigarette costs in the second half of the year, and lower cost of products under its supply agreement with McLane. As a result, merchandise gross profits per store

were up 2.2% in 1993 compared to 1992, since the increased margins more than offset the per-store sales decline. This was the highest per-store merchandise gross profit increase in over three years and represents a consistent trend of increases over the last ten months of the year, compared to 1992. Gross profit on retail gasoline sales was 13.9 cents per gallon in 1993, an increase of two cents compared to 1992 due to favorable market conditions and the positive impact of capital expenditure programs. As a result of the gasoline sales and margin improvement, per-store gasoline gross profits for 1993 were 29.8% higher than in 1992. (Except where noted, all per-store numbers above refer to an average of all stores rather than only stores open a year or more).

Since 1992, the Company has adopted a more customer-driven approach to merchandising, intended to greatly expand and improve the quality and variety of 7-Eleven's product selection through improved ordering, consistently phasing out slow-selling items and aggressively introducing new products in the early stages of their life cycle. The new merchandising process was begun in 1992, its usage was expanded in 1993, and the Company expects to improve its implementation further in 1994. Since 1992, this new process has resulted in improved sales and profits in those stores that are applying it to a significant number of major product categories. In addition, Southland continued to implement 7-Eleven's new retail pricing strategy to minimize discounting and promotions and instead charge a competitive everyday fair price on all items. As anticipated, this pricing strategy, together with fewer and shorter promotions, initially had a negative impact on those merchandise sales but enhanced margins in 1993, which contributed to higher per-store merchandise gross profits. Going forward, 7-Eleven plans to migrate its everyday-fair-price strategy toward lower retail prices as the Company achieves lower product costs through strategic alliances with its suppliers.

The Company is taking several other proactive steps that it believes will have a positive influence on per-store merchandise sales in 1994. These steps include continued closure of low-volume stores, a more efficient remodel process that will limit store downtime, minimize customer inconvenience and increase sales, especially during the prime selling season, and enhanced application of 7-Eleven merchandising processes. In addition, the usual uncontrollable factors such as weather, actions by competitors and inflation could affect these potential improvements. The Company's gasoline margins were at record levels during 1993, and while the Company continues to expect strong gasoline performance in 1994, it is unable to determine whether 1993 results will continue at the same levels.

Selling, general and administrative expenses ("SG&A") decreased $77.1 million in 1993 compared to 1992. Most of this decrease in the SG&A expense amounts resulted primarily from the cost savings realized in 1993 from the reduction in force that began in the third quarter of 1992 and the effect of having approximately 380 fewer stores. However, due to the merchandise sales decline, the ratio of SG&A expenses to sales was 22.8% in 1993, an increase of 1.06 percentage points over 1992 levels. In the fourth quarter of 1993, the Company incurred a charge of approximately $6.0 million for severance and related costs, due to an additional reduction in force of general and administrative personnel. The Company expects that the latest reorganization will result in approximately $15-20 million of savings beginning in 1994. In the fourth quarter of 1993, the Company also incurred a $42.8 million loss for store closings and dispositions of properties, compared to a loss of $30.7 million for those items in the same period last year. Using methodology adopted in 1993, both the 1993 and 1992 losses include anticipated and actual store closings, and dispositions of properties for those years.

The Company's total interest expense decreased $29.1 million for the year compared to 1992, primarily due to favorable rates on the Term Loan and greater use of commercial paper. Going forward, the Company expects its reported interest expense to increase due to the refinancing of the 12% Notes (see Liquidity and Capital Resources section). The weighted average interest rate on the Company's floating rate debt was 4.52% for 1993.

As a result of the operating and non-operating improvements described above, the Company recorded net earnings of $71.2 million in 1993 compared to a loss of $131.4 million during 1992. The comparisons include an extraordinary item and several special or unusual items (see Introduction section). Earnings per common share for 1993, both primary and fully diluted, were $.17. Before the extraordinary gain and cumulative effect of a required accounting change, the Company had a loss per common share, both primary and fully diluted, of $.03.

The Company believes that continued improvement and implementation of the 7-Eleven business concept, including its more customer-focused merchandising programs, a more efficient remodel process, lower interest expense and reductions in cost of goods and overhead expense, is improving its ability to compete more effectively and will contribute to improved results for 7-Eleven in 1994.

RESULTS OF OPERATIONS —
TWELVE MONTHS ENDED DECEMBER 31, 1992*

The Company recorded net sales of $7.43 billion for the year ended December 31, 1992, compared to net sales of $8.01 billion in 1991. The decline was primarily due to an average of about 260 fewer convenience stores, lower outside sales by the distribution and food centers (which were included for only eight months in 1992), and lower same-store merchandise sales. Convenience store sales accounted for 96.3% of net sales in 1992. Same-store merchandise sales decreased 3.9% in 1992 while 7-Eleven experienced an annualized inflation rate of 1.9%, resulting in negative real growth of 5.6%. 7-Eleven has experienced negative real growth in merchandise sales since early 1989 because of competitive pressures and the recession, and more recently due to a strategic decision to reduce discounting and promotional activities in favor of an everyday-fair-price strategy. Gasoline sales per store increased 6.5% in 1992, due to upgraded gasoline facilities, the continued improvement in gasoline inventory and price management, and the effect of closing certain low-volume locations.

Other income of $73.6 million in 1992 consisted primarily of royalties from area licensees, principally Seven-Eleven Japan Co., Ltd., and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 21.6%. The convenience stores' merchandise gross margin increased 0.75 percentage points in 1992 compared to 1991, primarily due to a reduction in discounting and promotional activities, a key part of the Company's merchandising strategy. For the year, merchandise gross profits per store were down slightly from 1991 due to the reduction in per-store merchandise sales, which offset the increased margins. Gross profit on retail gasoline sales was 11.9 cents per gallon in 1992, an increase of 2.0 cents when compared to 1991. Per-store gallonage increased 6.3% over 1991 levels, due to the effect of closing certain low-volume locations, capital expenditure programs begun in 1991 and favorable market conditions. (Except where noted, all per-store numbers above refer to an average of all stores rather than only stores open a year or more).

SG&A increased $22.7 million in 1992. The ratio of SG&A expenses to sales was 21.8% for the year, an increase of 1.87 percentage points compared to 1991. The increase primarily reflects lower sales and higher expenses associated with implementing the Company's business plan, including a $17.5 million expense for severance and related costs of a reduction in force, and a $44.3 million loss for store closings and dispositions of properties. A cost-cutting program, which began in the third quarter and was designed to control future SG&A expense, was part of an ongoing company wide effort to centralize and consolidate various stores' support functions, improve communications and the Company's ability to respond faster and more creatively to rapidly changing customer needs and preferences. The reduction in force resulted in approximately $9.1 million of savings from reduced salaries and wages in 1992, and the Company anticipated that 1993 cost savings from that action would be approximately $50 million.

In 1992, the Company adopted a more customer-driven approach to merchandising, intended to greatly expand and improve the quality and variety of 7-Eleven's product selection by phasing out slow-selling items and aggressively introducing high-turnover items and new products in the early stages of their life cycle. The new merchandising process was implemented, to varying extents, in most 7-Eleven stores by December 31, 1992. During 1992, Southland also implemented a new retail pricing strategy to reduce certain prices, minimize discounting and promotions and instead charge an everyday fair price, which was somewhat higher than supermarket prices, to reflect the value of convenience. As anticipated, this pricing strategy, together with fewer and shorter promotions, initially had a negative impact on merchandise sales, but was enhancing margins and expected to improve them further over the long term.

The upfront cost of introducing new programs, combined with soft economic conditions, caused the Company's 1992 operating earnings for the year to decline compared to those experienced in 1991. However, the Company experienced improved operating results in the fourth quarter compared to the same period in 1991.

The Company's total interest expense decreased $65.6 million in 1992 compared to 1991, primarily due to declining interest rates on the Term Loan and lower Term Loan balances. In 1992, the weighted average interest rate of the Company's floating rate debt was 6.56%. Going forward, the Company expected its interest expense to decline further due to lower average debt balances and the use of commercial paper at favorable rates. Given the Company's high percentage of fixed rate debt, in December 1991 the banks eliminated the hedging requirement from the Credit Agreement, and as of December 31, 1992, the Company had no interest rate hedges outstanding.

** Certain items herein have been reclassified to conform to the 1993 presentation.*

The business plan described above resulted in nonrecurring charges that obscured gradually improving operating performance. The Company recorded a net loss of $131.4 million for the year ended December 31, 1992, which included a $17.5 million provision for severance and related costs, as well as a $44.3 million loss for store closings and dispositions of properties, and a $45 million loss on the sale and closing of the distribution and food centers. This compared to net earnings of $82.5 million for the same period in 1991, which included an extraordinary gain on the debt restructuring of $156.8 million. Losses per common share for 1992, both primary and fully diluted, were $.32.

RESULTS OF OPERATIONS — TWELVE MONTHS ENDED DECEMBER 31, 1991*

The Company recorded net sales of $8.0 billion for the year ended December 31, 1991, versus $8.3 billion in 1990. The decline was primarily due to fewer convenience stores, lower retail gasoline prices and the phasing out of outside foodservice business at the distribution centers. Convenience store sales of $7.5 billion accounted for 94% of net sales. Same-store merchandise sales increased .26% in 1991 while 7-Eleven experienced an annualized inflation rate of 2.8% for the same period, resulting in negative real growth of 2.5%. Gasoline sales per store decreased 3.2% due primarily to lower average retail prices.

Other income of $73.8 million in 1991 consisted primarily of royalties from area licensees and interest income.

The Company's consolidated gross margin was 20.68% in 1991. The convenience stores' merchandise gross margin decreased 0.49 percentage points due to the recession and competitive pressures. Gross profit on retail gasoline sales decreased to 9.9 cents per gallon in 1991 from 11.6 cents in 1990 due primarily to unusually aggressive pricing by integrated oil companies. Gallonage on a per-store basis remained virtually flat, despite an approximate 4% decline in overall U.S. consumption, mostly as a result of successful marketing efforts.

Selling, general and administrative expenses decreased $69.2 million in 1991. The decline for the year was primarily attributed to $20.2 million less in Restructuring expenses and approximately $23 million in ongoing savings associated with certain cost-reduction measures. As a result, the ratio of selling, general and administrative expenses to sales was 19.9%, a decrease of .02 percentage points from the same period in 1990.

In 1991, the Company began some important marketing tests and implementation of inventory management processes aimed at emphasizing item-by-item tracking of merchandise at each store to eliminate slow-moving merchandise and introduce new, faster-moving items.

Although the Company's merchandise sales increased on a per-store basis during 1991, these increases did not compensate for the decrease in merchandise margins that resulted from the effects of the recession and competitive pressures. As a result of the then-current economic outlook, intense competition, significantly lower-than-anticipated capital expenditures in 1991 and implementation of new programs, the Company expected its operating results to decline further in 1992.

The Company's total interest expense decreased $270.2 million during 1991, which included $231.3 million in interest on the Company's public debt securities that were outstanding prior to the Restructuring (the "Old Debt Securities"), primarily due to the effects of the Restructuring. The Company stopped accruing interest on the Old Debt Securities at the time it filed bankruptcy. In addition, as required by SFAS No. 15, the related interest payments on the debt securities issued as part of the Restructuring were not being charged to interest expense, but rather were charged against their recorded amounts. Additional factors included lower Term Loan balances, declining interest rates on the Term Loan and the absence of borrowings under the Credit Agreement's revolving credit facility after consummation of the Restructuring. As a result of the above factors, the Company's reported interest expense was expected to be significantly reduced in the future.

At December 31, 1991, approximately 53% of the Company's bank term debt was hedged against future interest rate increases. In 1991, the weighted average interest rate of the Company's Term Loan indebtedness under the Credit Agreement, including the cost of hedging and interest swaps, was 11.5%. The net cost of hedging was $8.4 million higher than interest expense would have been without hedging.

In accordance with SFAS No. 15, the Company recognized a gain on the Restructuring of $156.8 million for the twelve months ended December 31, 1991. In addition, shareholders' equity increased by $127.8 million due to the exchange of Redeemable Preferred Stock for Common Stock associated with the Restructuring.

As a result of the factors described above, and a foreign tax expense of $8.0 million, the Company's net earnings for the year ended December 31, 1991, were $82.5 million.

* *Certain items herein have been reclassified to conform to the 1993 presentation.*

(Dollars in Thousands, Except Per-Share Data)	December 31 1993	1992
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,486	$ 1,804
Accounts and notes receivable	90,934	131,350
Inventories	109,363	125,710
Other current assets	31,954	35,577
Assets held for sale	—	34,309
Total current assets	245,737	328,750
Property, plant and equipment	1,337,586	1,356,163
Other assets	415,422	359,904
	$ 1,998,745	$ 2,044,817
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Trade accounts payable	$ 196,026	$ 197,631
Other liabilities and accrued expenses	347,563	342,984
Commercial paper	41,220	71,866
Long-term debt due within one year	149,503	152,515
Total current liabilities	734,312	764,996
Deferred credits and other liabilities	242,426	190,652
Long-term debt	2,270,357	2,407,928
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, $.0001 par value; 1,000,000,000 shares authorized; 409,922,935 and 410,022,481 shares issued and outstanding	41	41
Additional capital	625,574	625,724
Accumulated deficit	(1,873,965)	(1,944,524)
Total shareholders' equity (deficit)	(1,248,350)	(1,318,759)
	$ 1,998,745	$ 2,044,817

See notes to consolidated financial statements.

(Dollars in Thousands, Except Per-Share Data)	Years Ended December 31 1993	1992	1991
Revenues:			
Net sales (including $962,955, $986,962 and $954,027 in excise taxes)	$ 6,744,333	$ 7,425,844	$ 8,009,507
Other income	69,902	73,570	73,808
	6,814,235	7,499,414	8,083,315
Cost of goods sold and expenses:			
Cost of goods sold	5,171,806	5,820,817	6,352,855
Selling, general and administrative expenses	1,538,719	1,615,799	1,593,107
Loss on sale and closing of distribution and food centers	—	45,000	—
Interest expense	94,559	123,647	189,290
Contributions to Employees' Savings and Profit Sharing Plan	11,731	14,100	14,411
	6,816,815	7,619,363	8,149,663
Loss before income taxes, extraordinary items and cumulative effect of accounting change	(2,580)	(119,949)	(66,348)
Income taxes	8,700	11,500	8,000
Loss before extraordinary items and cumulative effect of accounting change	(11,280)	(131,449)	(74,348)
Extraordinary items:			
Gain on debt redemption	98,968	—	—
Gain on debt restructuring	—	—	156,824
Total extraordinary items	98,968	—	156,824
Cumulative effect of accounting change for postemployment benefits	(16,537)	—	—
Net earnings (loss)	$ 71,151	$ (131,449)	$ 82,476
Earnings (loss) per common share (primary and fully diluted):			
Before extraordinary items and cumulative effect of accounting change	$ (.03)	$ (.32)	$ (.22)
Extraordinary items	.24	—	.46
Cumulative effect of accounting change	(.04)	—	—
Net earnings (loss)	$ .17	$ (.32)	$ .24

See notes to consolidated financial statements.

(Dollars in Thousands, Except Share Amounts)	Common Stock Shares	Common Stock Amount	Additional Capital	Accumulated Deficit	Total Shareholders' Equity(Deficit)
Balance, January 1, 1991	20,480,844	$ 2	$ 20,364	$ (2,018,926)	$ (1,998,560)
Net earnings	—	—	—	82,476	82,476
Shares issued related to Restructuring	389,541,637	39	584,474	—	584,513
Costs associated with issuance of common stock	—	—	(5,250)	—	(5,250)
Cancellation of redeemable preferred stock in Restructuring	—	—	—	127,788	127,788
Foreign currency translation adjustments	—	—	—	(1,250)	(1,250)
Balance, December 31, 1991	410,022,481	41	599,588	(1,809,912)	(1,210,283)
Net loss	—	—	—	(131,449)	(131,449)
Adjustment for redeemable common stock purchase warrants	—	—	26,136	—	26,136
Foreign currency translation adjustments	—	—	—	(3,163)	(3,163)
Balance, December 31, 1992	410,022,481	41	625,724	(1,944,524)	(1,318,759)
Net earnings	—	—	—	71,151	71,151
Cancellation of shares	(99,546)	—	(150)	112	(38)
Foreign currency translation adjustments	—	—	—	(704)	(704)
Balance, December 31, 1993	409,922,935	$ 41	$ 625,574	$ (1,873,965)	$ (1,248,350)

See notes to consolidated financial statements.

(Dollars in Thousands)	Years Ended December 31 1993	1992	1991
Cash flows from operating activities:			
Net earnings (loss)	$ 71,151	$ (131,449)	$ 82,476
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Extraordinary gain on debt redemption	(98,968)	—	—
Extraordinary gain on debt restructuring	—	—	(156,824)
Cumulative effect of accounting change for postemployment benefits	16,537	—	—
Depreciation and amortization of property, plant and equipment	134,920	160,502	179,855
Other amortization	19,430	19,778	20,289
Noncash interest expense	8,497	12,429	17,508
Other noncash expense	3,393	4,874	8,167
Net loss on property, plant and equipment	48,017	46,064	19,745
Loss on sale and closing of distribution and food centers	—	45,000	—
Decrease in accounts and notes receivable	24,937	5,190	35,112
Decrease in inventories	16,347	12,252	74,541
Decrease (increase) in other assets	3,344	6,052	(36,908)
Decrease in trade accounts payable and other liabilities	(15,528)	(8,102)	(96,796)
Net cash provided by operating activities	232,077	172,590	147,165
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(195,146)	(88,575)	(69,873)
Proceeds from sale of property, plant and equipment	22,809	15,827	16,015
Net currency exchange principal transactions	(8,894)	(6,635)	(4,353)
Payments on notes from sales of real estate	1,152	1,317	1,174
Cash received from (paid for) other investments	3,830	822	(1,290)
Cash utilized by distribution and food center assets	(17,739)	(54,020)	—
Proceeds from sale of distribution and food center assets	44,889	141,793	—
Net cash (used in) provided by investing activities	(149,099)	10,529	(58,327)
Cash flows from financing activities:			
Proceeds from commercial paper and revolving credit facilities	4,111,500	2,007,239	478,955
Payments under commercial paper and revolving credit facilities	(3,927,234)	(1,785,717)	(546,070)
Proceeds from issuance of long-term debt	150,000	—	—
Principal payments under long-term debt agreements	(403,125)	(624,527)	(333,009)
Proceeds from issuance of stock	—	—	430,011
Debt issuance costs	(2,437)	(5,329)	—
Net cash (used in) provided by financing activities	(71,296)	(408,334)	29,887
Net increase (decrease) in cash and cash equivalents	11,682	(225,215)	118,725
Cash and cash equivalents at beginning of year	1,804	227,019	108,294
Cash and cash equivalents at end of year	$ 13,486	$ 1,804	$ 227,019
Related disclosures for cash flow reporting:			
Interest paid, excluding SFAS 15 Interest	$ (87,631)	$ (116,931)	$ (171,048)
Net income taxes (paid) refunded	$ (2,036)	$ 8,368	$ (20,350)

See notes to consolidated financial statements.

YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

1. ACCOUNTING POLICIES

Principles of Consolidation

The Southland Corporation and subsidiaries ("the Company") is owned approximately 64% by IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. ("IY") and Seven-Eleven Japan Co., Ltd. ("SEJ").

The consolidated financial statements include the accounts of The Southland Corporation and its subsidiaries. Intercompany transactions and account balances are eliminated. Prior-year amounts have been reclassified to conform to current-year presentation, except for amounts related to contingencies, which are discussed in Note 14.

The Company's net sales are comprised of sales of products and services. Net Sales and Cost of Goods Sold of stores operated by franchisees are consolidated with the results of Company-operated stores. Net sales of stores operated by franchisees are $2,810,270,000, $2,931,494,000 and $3,065,542,000 from 2,998, 3,011 and 3,045 stores for the years ended December 31, 1993, 1992 and 1991, respectively. Under the present franchise agreements, initial franchise fees are recognized in income currently and are generally calculated based upon gross profit experience for the store or market area. These fees cover certain costs including training, an allowance for travel, meals and lodging for the trainees and other costs relating to the franchising of the store.

The gross profit of the franchise stores is split between the Company and its franchisees. The Company's share of the gross profit of franchise stores is its continuing franchise fee, generally ranging from 50% to 58% of the gross profit of the store, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services, training seminars and preparation of financial statements. The gross profit earned by the Company's franchisees of $530,436,000, $539,835,000 and $543,144,000 for the years ended December 31, 1993, 1992 and 1991, respectively, are included in the Consolidated Statements of Operations as Selling, General and Administrative Expenses.

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Other Income

Other income is primarily comprised of area license royalties and interest income. The area license royalties include amounts from area license agreements with SEJ of approximately $39,000,000, $37,000,000 and $34,000,000 for the years ended December 31, 1993, 1992 and 1991, respectively.

Cost of Goods Sold

Cost of goods sold includes buying and occupancy expenses.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash investments of $11,345,000 and $5,410,000 at December 31, 1993 and 1992, respectively, stated at cost, which approximates market. The Company considers all highly liquid investment instruments purchased with maturities of three months or less to be cash equivalents.

Inventories

Inventories are generally stated at the lower of cost, using the LIFO method, or market.

Depreciation and Amortization

Depreciation of buildings and equipment is based upon the estimated useful lives of these assets using the straight-line method. Amortization of capital leases, improvements to leased properties and favorable leaseholds is based upon the remaining terms of the leases or the estimated useful lives, whichever is shorter.

Foreign and domestic area license royalty intangibles were recorded in 1987 at the fair value of future royalty payments and are being amortized over 20 years using the straight-line method. The 20-year life is less than the estimated lives of the various royalty agreements, the majority of which are perpetual.

Income Taxes

In 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" (see Note 15).

Store Closings

Provision is made on a current basis for the write-down of identified owned-store closings to their estimated net realizable value. For identified leased-store closings, provision is made on a current basis if anticipated expenses are in excess of expected sublease rentals.

Business Segment

The Company operates in a single business segment — the operating and franchising of convenience food stores, primarily under the 7-Eleven name.

2. ACCOUNTS AND NOTES RECEIVABLE

(Dollars in Thousands)	December 31 1993	December 31 1992
Notes receivable (net of long-term portion of $18,310 and $6,910)	$ 3,030	$ 3,992
Trade accounts receivable	48,609	89,945
Franchisee accounts receivable	38,823	49,338
Environmental cost reimbursements (net of long-term portion of $72,038) — see Note 14	8,294	—
	98,756	143,275
Allowance for doubtful accounts	(7,822)	(11,925)
	$ 90,934	$ 131,350

3. INVENTORIES

Inventories stated on the LIFO basis that are included in inventories in the accompanying Consolidated Balance Sheets approximated $65,607,000 and $76,944,000 at December 31, 1993 and 1992, respectively, which is less than replacement cost by approximately $25,292,000 and $33,991,000, respectively. At December 31, 1993, 1992 and 1991, inventories were reduced resulting in a liquidation of LIFO inventory layers recorded at costs that were lower than the costs of current purchases. The effects of these reductions were to decrease cost of goods sold by approximately $3,900,000 in 1993, decrease the loss on the sale and closing of the distribution and food centers by approximately $23,000,000 in 1992 and decrease cost of goods sold by approximately $13,000,000 in 1991.

4. OTHER CURRENT ASSETS

(Dollars in Thousands)	December 31 1993	December 31 1992
Prepaid expenses	$ 19,165	$ 20,718
Deposits	12,789	14,859
	$ 31,954	$ 35,577

5. PROPERTY, PLANT AND EQUIPMENT

(Dollars in Thousands)	December 31 1993	December 31 1992
Cost:		
Land	$ 495,120	$ 537,406
Buildings and leaseholds	1,183,904	1,186,968
Machinery and equipment	578,289	543,616
Construction in process	35,321	13,704
	2,292,634	2,281,694
Accumulated depreciation and amortization	(955,048)	(925,531)
	$ 1,337,586	$ 1,356,163

6. DIVESTED ASSETS

On November 30, 1992, the Company sold two of its five distribution centers and three of its six food centers, together with substantially all of the centers' inventories and receivables to McLane Company, Inc. ("McLane"). In addition, two of the remaining distribution centers, in combination with their related food centers, were closed in December 1992, and the third combined facility was closed in April 1993. The Company sold one of these combined facilities in 1993 and is currently subleasing another, which is under contract to be sold in December 1994. For the years ended December 31, 1993 and 1992, the Company received cash proceeds of approximately $44,900,000 and $141,800,000, respectively, from the sale of distribution and food center assets.

Assets held for sale at December 31, 1992, primarily represented inventories that were sold to McLane in 1993 during the shut-down of the remaining facilities. The long-term assets remaining to be sold are recorded in property, plant and equipment at their estimated net realizable value.

Liabilities relating to the assets to be sold in future years include accruals for operating leases and carrying costs.

The $45,000,000 pre-tax loss on the sale and closing of the distribution and food centers in 1992 included the loss from the sale of assets to McLane, the expected loss on future sales of the remaining facilities, and the expected net cash outflows on all such facilities subsequent to August 31, 1992 (the measurement date), until the expected dates of disposition. Operating results for the four-month period ended December 31, 1992, and the year ended December 31, 1993, which were included in the loss, were not material.

7. OTHER ASSETS

	December 31	
(Dollars in Thousands)	1993	1992
Japanese license royalty (net of accumulated amortization of $100,957 and $84,941)	$ 217,543	$ 233,559
Other license royalties (net of accumulated amortization of $18,077 and $15,229)	38,692	41,540
Environmental cost reimbursements (net of allowance of $12,529) — see Note 14	72,038	—
Deferred debt issuance costs (net of accumulated amortization of $65,553 and $63,676)	8,479	9,567
Other (net of accumulated amortization of $562 and $3,543)	78,670	75,238
	$ 415,422	$ 359,904

8. OTHER LIABILITIES AND ACCRUED EXPENSES

	December 31	
(Dollars in Thousands)	1993	1992
Accrued insurance	$ 94,121	$ 87,422
Accrued payroll	47,690	62,100
Accrued taxes, other than income	39,173	42,191
Other	166,579	151,271
	$ 347,563	$ 342,984

Other includes accounts payable to The Southland Corporation Employees' Savings and Profit Sharing Plan (see Note 13) for Company contributions and contingent rent payables of $14,098,000 and $17,295,000 as of December 31, 1993 and 1992, respectively.

9. DEBT

	December 31	
(Dollars in Thousands)	1993	1992
Bank Debt Term Loans due 1996	$ 329,017	$ 237,938
Bank Debt revolving credit facility	15,000	—
Commercial paper	350,000	150,000
12% Senior Notes	—	370,890
5% First Priority Senior Subordinated Debentures due 2003	638,070	660,807
4½% Second Priority Senior Subordinated Debentures (Series A) due 2004	303,884	313,251
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	26,648	27,505
12% Second Priority Senior Subordinated Debentures (Series C) due 2009	62,311	64,925
6¼% Yen Loan	273,793	291,162
7⅞% Cityplace Notes due 1995	287,363	285,238
Canadian revolving credit facility	7,499	7,388
Capital lease obligations	120,398	137,157
Other	5,877	14,182
	2,419,860	2,560,443
Less long-term debt due within one year	149,503	152,515
	$ 2,270,357	$ 2,407,928

Bank Debt

In 1987, the Company became obligated under a credit agreement ("Credit Agreement") that presently includes term loans ("Term Loans") and a revolving credit facility (collectively "Bank Debt"). The Credit Agreement contains numerous financial and operating covenants requiring, among other things, the maintenance of certain financial ratios including interest coverage, fixed-charge coverage and total debt. In addition, the Credit Agreement requires the attainment of certain levels of earnings before interest, income taxes, depreciation and amortization.

The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in leasing transactions, (c) limit future capital expenditures and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt. Under the Credit Agreement, all of the assets of the Company, with the exception of certain specified property, serve as collateral.

In September 1992, the Company entered into an amendment to the Credit Agreement that permitted the establishment of a $400 million commercial paper facility. In connection with this amendment, the Company was required to make $350 million in prepayments of the Term Loans. In addition, as a result of the sale of the distribution and food center assets (see Note 6) and in accordance with an October 1992 amendment to the Credit Agreement, a $110 million prepayment of the Term Loans was made in December 1992. The $460 million in prepayments were applied to all remaining scheduled quarterly installments. Quarterly installments for 1994 are $9.9 million in the first quarter and $18.8 million in the remaining three quarters, and for 1995 are $42.9 million for the first two quarters and $27.1 million on September 30, 1995.

In August, the Company completed a refinancing of its 12% Senior Notes due December 15, 1996, with proceeds from working capital and an additional $150 million term loan under the existing Credit Agreement (the "Refinancing"). To complete the Refinancing, an amendment to the Credit Agreement (the "Refinancing Amendment") was executed to provide for the additional term loan, which is due and payable on August 30, 1996, to permit redemption of the 12% Senior Notes and to modify and extend existing financial covenants through August 1996. The amendment did not affect the previously scheduled quarterly installments under the October 1992 amendment to the Credit Agreement noted above.

The revolving credit facility makes available borrowings and letters of credit totaling a maximum of $275 million until its expiration on December 31, 1995. Maximum borrowings under the revolving credit facility, which are set at $150 million, are limited to $25 million whenever the face amount of commercial paper outstanding is below $375 million or the ratings of the commercial paper drop below certain levels. Upon expiration of the facility, all the then outstanding letters of credit may need to be replaced, and all other amounts then outstanding will be due and payable in full. The facility includes an annual requirement for repayment of all borrowings outstanding for 30 consecutive days; therefore, the balance is classified as due within one year. At December 31, 1993, $116.7 million in letters of credit was outstanding. A fee of 2% per year on the outstanding amount of letters of credit is required to be paid. A ½% per year commitment fee on unadvanced funds, which for purposes of this calculation include outstanding letters of credit, is payable quarterly.

Interest on the Bank Debt is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate plus 1.5% per year or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus 2.5% per year. The weighted-average rate of Bank Debt outstanding at December 31, 1993, was 5.9%.

Commercial Paper

In September 1992, the Company obtained a facility that provides for the issuance of up to $400 million in commercial paper. At December 31, 1993, $350 million of the $391.2 million outstanding principal, net of discount, was classified as long-term debt since the Company intends to maintain at least this amount outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. In addition, as a condition of the Refinancing, IY has agreed to continue its guarantee of all commercial paper issued through 1996. While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Credit Agreement restricts the Company from reimbursing IY for the first $375 million of any such payments of principal made pursuant to the commercial paper guarantee. The Company is, however, allowed to reimburse IY for the remaining $25 million. The Company has entered into an agreement with IY under which it would not be required to reimburse IY for $375 million of such principal payments until one year after expiration of the Credit Agreement at which time reimbursement shall be immediately due. The weighted-average interest rate on commercial paper borrowings outstanding at December 31, 1993, was 3.3%.

Restructured Notes & Debentures

On October 24, 1990, The Southland Corporation filed a Voluntary Petition for Relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court (the "Court"). None of The Southland Corporation's subsidiaries was part of the Chapter 11 filing. The Southland Corporation also filed the Debtor's Plan of Reorganization (the "Plan"). The significant features of the Plan, which occurred concurrently, consisted of a cash infusion of $430,000,000 from the sale of 286,634,619 shares of newly issued common stock, representing approximately 70% of the Company's outstanding shares,

to IYG Holding Company, renegotiations of the Credit Agreement, an agreement to refinance the Cityplace notes in 1995, the cancellation of certain classes of old debt (the "Old Debt Securities") and redeemable preferred stock (collectively, the "Old Securities") and the issuance of five series of notes and debentures (the "Restructured Debt Securities"), common stock warrants ("Thompson Warrants") and/or payment of cash (collectively, the "Restructuring"). The Thompson Warrants are exercisable from June 5, 1991, through February 23, 1996, for $1.75 per share against approximately one-half of the Thompsons' original 5% ownership granted under the Plan. The Plan was confirmed by the Court, and the Restructuring was consummated on March 5, 1991.

The Restructured Debt Securities were recorded in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," at an amount equal to the future undiscounted cash payments, both principal and interest ("SFAS No. 15 Interest"). Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will be charged against the recorded amount of such securities. Interest on all of the Restructured Debt Securities is payable in cash semiannually on June 15 and December 15 of each year.

The 12% Senior Notes, due December 15, 1996, were recorded in March 1991 at $446,070,000, with an aggregate principal amount of $250,601,000. On August 30, 1993, as part of the Refinancing, the 12% Senior Notes were redeemed, resulting in an extraordinary gain of $98,968,000, which had no tax effect.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003, were recorded in March 1991 at $717,151,000, with an aggregate principal amount of $450,755,000. They are redeemable at any time at the Company's option at 100% of principal amount. Annual sinking fund payments of $27,045,000 are due each December 15, commencing 1996 through 2002. These payments retire 42% of the debt before maturity.

The Second Priority Senior Subordinated Debentures were issued in three series in March 1991. Each series is redeemable at any time at the Company's option at 100% of principal amount and are described as follows:

— 4½% Series A Debentures, due June 15, 2004, were recorded at $336,474,000, with an aggregate principal amount of $206,426,000.

— 4% Series B Debentures, due June 15, 2004, were recorded at $29,389,000, with an aggregate principal amount of $18,839,000.

— 12% Series C Debentures, due June 15, 2009, were recorded at $70,808,000, with an aggregate principal amount of $21,787,000.

The Restructured Debt Securities contain certain covenants that, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the Restructured Debt Securities at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates, and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The First and Second Priority Senior Subordinated Debentures are subordinate to the outstanding Bank Debt and to previously outstanding mortgages and notes that are either backed by specific collateral or are general unsecured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

The cancellation of the Old Debt Securities and the issuance of the Restructured Debt Securities and common stock to the holders of such Old Debt Securities resulted in an extraordinary gain in 1991 of $156,824,000, which had no tax effect. A portion of the gain is attributable to interest accrued on the Old Debt Securities that was not paid and was partially offset by the write-off of deferred costs associated with the Old Debt Securities, the costs incurred to issue the Restructured Debt Securities, and a cash payment made to the holders of one of the classes of Old Debt Securities.

For each share of redeemable preferred stock cancelled, the holders of such stock received one share of common stock, which resulted in a decrease in the accumulated deficit in 1991 of $127,788,000.

The balance sheet effects of noncash restructuring transactions, which are not reflected in the Consolidated Statement of Cash Flows for the year ended December 31, 1991, are as follows (dollars in thousands):

Decrease in other current assets	$ 19,186
Decrease in other assets	$ 50,289
Decrease in other liabilities and accrued expenses	$ 118,815
Net decrease in long-term debt	$ 280,951
Decrease in redeemable preferred stock	$ 148,496
Increase in common stock and additional capital	$ 153,752
Decrease in accumulated deficit	$ 325,035

Yen Loan

In March 1988, the Company monetized its future royalty payments from the area licensee in Japan, Seven-Eleven Japan Co., Ltd., through a loan that is nonrecourse to the Company as to principal and interest. The debt, payable in Japanese yen, was in the amount of 41 billion yen, or approximately $327,000,000 (at the exchange rate in March 1988), and is collateralized by the Japan trademarks and a pledge of the future royalty payments. The current interest rate of 6¼% will be reset after March 1998. Payment of the debt is required no later than March 2006 through future royalties from the Japanese licensee, and the Company believes it is a remote possibility that there will be any principal balance remaining at that date. By designating its future royalty receipts during the term of the loan to service the monthly interest and principal payments, the Company has hedged the impact of future exchange rate fluctuations.

Cityplace Notes

Cityplace Center East Corporation ("CCEC"), a subsidiary of the Company, issued $290,000,000 of notes in March 1987 to finance the construction of the headquarters tower, a parking garage and related facilities of the Cityplace Center development. These notes bear interest at 7⅞%, payable semiannually on February 15 and August 15, with the principal amount due February 15, 1995. Because of the application of purchase accounting in 1987, the effective interest rate on the notes for financial statement purposes is 9.0%. Principal and interest on the notes are payable by drawings under irrevocable letters of credit issued by The Sanwa Bank, Limited, Dallas Agency ("Sanwa"), which, along with the noteholders, has been granted a lien on the property financed. The Company is occupying part of the building as its corporate headquarters and a significant portion of the balance is subleased. In December 1990, the Company and CCEC entered into an amendment to the agreement with Sanwa, which became effective upon consummation of the Restructuring. It provides that, upon maturity of the notes in February 1995, the noteholders will draw on the letter of credit in payment of their principal. At such time, the Company has the option of either repaying the principal to Sanwa or extending the term of maturity ten years to March 1, 2005, with monthly payments of principal and interest based upon a 25-year amortization at 7½%, with the remaining principal due upon maturity. As additional consideration through the extended term of the notes, CCEC will pay to the lender any net sublease income it receives on the property and 60% of the proceeds, less $275 million and permitted costs, upon a sale or refinancing of the building.

Southland Canada Debt

In July 1985, Southland Canada, Inc., an indirect wholly owned subsidiary of the Company, issued 12% Canadian notes with a face amount of Canadian $50,000,000. In July 1992, these notes matured, and all principal and interest outstanding was repaid.

During 1988, Southland Canada, Inc. entered into a revolving credit facility with a Canadian chartered bank. The facility currently provides bank financing of up to Canadian $17,858,000 (approximately U.S. $13,490,000 at December 31, 1993), which will be reduced to Canadian $14,287,000 on June 30, 1994, and will be further reduced each year thereafter until June 30, 1998, when the facility will expire, and all amounts outstanding will be due and payable in full. At December 31, 1993, the Company had borrowings outstanding under this facility of Canadian $9,926,000 (approximately U.S. $7,499,000). Interest on such facility is generally payable monthly and is based upon the Canadian Prime rate (5.5% at December 31, 1993) plus .5% per year.

Maturities

Long-term debt maturities assume the extension of the Cityplace Notes and the continuance of the Commercial Paper program. The maturities, which include capital lease obligations and sinking fund requirements, as well as SFAS No. 15 Interest accounted for in the recorded amount of the Restructured Debt Securities, are as follows (dollars in thousands):

1994	$ 149,503
1995	186,830
1996	256,232
1997	110,665
1998	112,983
Thereafter	1,603,647
	$ 2,419,860

10. PREFERRED STOCK

The Company has 5,000,000 shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

11. REDEEMABLE COMMON STOCK PURCHASE WARRANTS

In 1987, the Company issued 26,135,682 redeemable common stock purchase warrants (the "Warrants"). The Warrants were recorded at $1.00 per Warrant, which was the amount of proceeds allocated to the Warrants at the time of issuance. The Warrants were governed by a Warrant Agreement and were exercisable through December 15, 1992, only upon the occurrence of certain specified events. None of the specified events occurred on or before December 15, 1992, and all of the warrants expired on December 16, 1992. Under the provisions of the Warrant Agreement, the Company was obligated to repurchase the Warrants by March 15, 1995, at the fair market value of the Warrants as separate securities, as determined by an independent financial expert. A fair market value of $0 for the Warrants was determined by an independent financial expert in December 1992. The $26,135,682 difference between the carrying amount of the Warrants and their fair value was recorded as an increase in additional capital in 1992.

12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair-value amounts have been determined by the Company using available market information and appropriate valuation methodologies.

The carrying amounts of Cash and Cash Equivalents, Trade Accounts Receivable, Trade Accounts Payable and Other Liabilities and Accrued Expenses are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of Other Liabilities and Accrued Expenses. The carrying amounts and estimated fair values of other financial instruments at December 31, 1993, are listed in the following table:

(Dollars in Thousands)	Carrying Amount	Estimated Fair Value
Bank Debt	$ 344,017	$ 344,017
Commercial Paper	391,220	391,220
Restructured Notes and Debentures	1,030,913	508,956
Cityplace Notes	287,363	301,238
Yen Loan	273,793	330,230

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

The carrying amount of the Bank Debt approximates fair value because the interest rates are variable.

Commercial paper borrowings are sold at market interest rates and have an average remaining maturity of less than 21 days. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The guarantee of the commercial paper by IY is an integral part of the estimated fair value of the commercial paper borrowings.

The fair values of the Restructured Notes and Debentures and the Cityplace Notes are estimated based upon December 31, 1993, bid prices obtained from investment banking firms where traders regularly make a market for these financial instruments. The carrying amount of the Restructured Debt includes $333,372,000 of SFAS No. 15 Interest (see Note 9).

The fair value of the Yen Loan is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.

13. EMPLOYEE BENEFIT PLANS

Employees' Savings and Profit Sharing Plan

Effective January 1, 1949, the Company adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan") for the purpose of providing retirement benefits for eligible employees.

Contributions to the Savings and Profit Sharing Plan are made by both the participants and the Company. The Company contributes the greater of approximately 10% of its net earnings before contribution to the Savings and Profit Sharing Plan and federal income taxes or an amount determined by the Company's president. The Company contribution is generally allocated to the participants on the basis of their individual contribution, years of participation in the Savings and Profit Sharing Plan and age. The Company contributions for the years ended December 31, 1993, 1992 and 1991 were $11,956,000, $14,647,000 (including amounts allocated to the distribution and food centers in 1993 and 1992) and $14,411,000, respectively.

Postretirement Benefits

The Company's group insurance plan (the "Insurance Plan") provides postretirement medical and dental benefits for all retirees who meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered, as adjusted for actual claims experience. All other future costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

Net periodic postretirement benefit costs recognized in earnings for 1993, 1992 and 1991 include the following components:

(Dollars in Thousands)	1993	1992	1991
Service cost	$ 824	$ 862	$ 1,298
Interest cost	2,048	1,998	2,679
Amortization of unrecognized gain	—	(564)	—
	$ 2,872	$ 2,296	$ 3,977

The accrual for postretirement medical and dental benefits was reduced by approximately $3,883,000 during the fourth quarter of 1992, due to the termination of employees not eligible to retire. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7% and 8% at December 31, 1993 and 1992, respectively. Components of the accrual recorded in the Company's consolidated balance sheets are as follows:

	December 31	
(Dollars in Thousands)	1993	1992
Accumulated Postretirement		
Benefit Obligation:		
Retirees	$ 13,380	$ 12,757
Active employees eligible to retire	5,117	5,636
Other active employees	6,466	7,377
	24,963	25,770
Unrecognized gains	3,103	1,693
	$ 28,066	$ 27,463

Postemployment Benefits

In the fourth quarter of 1993, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." In accordance with the provisions of SFAS No. 112, the Company has calculated accumulated postemployment benefit obligations of $16,537,000 as of January 1, 1993. The obligation primarily represents future medical costs relating to short-term and long-term disability. The accumulated postemployment benefit obligation of $16,537,000, which has no tax effect, has been recorded as a cumulative effect of an accounting change in the consolidated statement of operations for the year ended December 31, 1993.

Equity Participation Plan

During 1988, the Company adopted The Southland Corporation Equity Participation Plan (the "Participation Plan"), which provides for the granting of both incentive options and nonstatutory options and the sale of convertible debentures to certain key employees and officers of the Company. The options were granted at the fair market value on the date of grant, which is the same as the conversion price provided in the debentures.

All options expire, and the debentures mature, no later than December 31, 1997. Options are not exercisable, and the debentures are not convertible, until the earlier of December 31, 1994, or until the occurrence of certain specified events set forth in the Participation Plan. The Participation Plan was amended to exclude the Restructuring from qualifying as such an event. In the aggregate, not more than 3,529,412 shares of common stock of the Company can be issued pursuant to the Participation Plan; however, the Company has no present intent to grant additional options. At December 31, 1993, there were options outstanding to acquire 1,797,739 shares, of which 1,700,346 were at $7.50 per share and 97,393 were at $7.70 per share, and debentures outstanding that were convertible into 18,969 shares, none of which are currently exercisable or convertible.

Grant Stock Plan

During 1988, the Company adopted The Southland Corporation Grant Stock Plan (the "Stock Plan"). Under the provisions of the Stock Plan, up to 750,000 shares of common stock are authorized to be issued to certain key employees and officers of the Company. The stock was fully vested upon the date of issuance. As of December 31, 1993, 480,844 shares had been issued pursuant to the Stock Plan. No shares have been issued since 1988, and the Company has no present intent to grant additional shares. The shares available for issuance under the Participation Plan are reduced by the number of shares issued under the Stock Plan.

14. LEASES, COMMITMENTS AND CONTINGENCIES

Leases

Certain of the property, plant and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from one to ten years. The leases do not contain restrictions that have a material effect on the Company's operations.

The composition of capital leases reflected as property, plant and equipment in the consolidated balance sheets is as follows:

	December 31	
(Dollars in Thousands)	1993	1992
Buildings	$ 125,294	$ 141,452
Equipment	226	482
	125,520	141,934
Accumulated amortization	(62,488)	(63,880)
	$ 63,032	$ 78,054

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(Dollars in Thousands)	Capital Leases	Operating Leases
1994	$ 25,728	$ 114,739
1995	24,526	106,197
1996	23,126	97,279
1997	21,403	85,707
1998	19,634	69,867
Thereafter	95,900	280,333
Future minimum lease payments	210,317	$ 754,122
Estimated executory costs	(683)	
Amount representing imputed interest	(89,236)	
Present value of future minimum lease payments	$ 120,398	

Minimum noncancelable sublease rentals to be received in the future, which are not included above as offsets to future payments, total $26,769,000 for capital leases and $27,190,000 for operating leases.

Rent expense on operating leases for the years ended December 31, 1993, 1992 and 1991, totaled $124,402,000, $135,657,000 and $140,294,000, respectively, including contingent rentals of $8,214,000, $9,037,000 and $9,738,000, but reduced by sublease rentals of $8,545,000, $8,252,000 and $8,270,000. Contingent rent expense on capital leases for the years ended December 31, 1993, 1992 and 1991, was $3,084,000, $3,964,000 and $5,067,000, respectively. Contingent rentals are generally based upon sales levels or changes in the Consumer Price Index.

Leases With The Savings and Profit Sharing Plan

At December 31, 1993, the Savings and Profit Sharing Plan owned 302 stores leased to the Company under capital leases and 651 stores leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the date of lease. In addition, 62, 31 and 15 properties were sold by the Savings and Profit Sharing Plan to third parties in 1993, 1992 and 1991, respectively, and at the same time, the related leases with the Company were cancelled. Included in the consolidated financial statements are the following amounts related to leases with the Savings and Profit Sharing Plan:

	December 31	
(Dollars in Thousands)	1993	1992
Buildings (net of accumulated amortization of $9,973 and $9,648)	$ 4,884	$ 6,550
Capital lease obligations (net of current portion of $2,307 and $2,302)	$ 6,583	$ 9,184

	Years Ended December 31		
(Dollars in Thousands)	1993	1992	1991
Rent expense under operating leases and amortization of capital lease assets	$ 30,028	$ 31,291	$ 31,731
Imputed interest expense on capital lease obligations	$ 948	$ 1,213	$ 1,440
Capital lease principal payments included in principal payments under long-term debt agreements	$ 2,200	$ 2,302	$ 2,457

Commitments

McLane

In connection with the 1992 sale of assets to McLane, the Company and McLane entered into a ten-year service agreement under which McLane is making its distribution services available to 7-Eleven stores in the United States. If the Company does not fulfill its obligation to McLane during this time period, the Company must reimburse McLane on a pro-rata basis for the transitional payment received at the time of the transaction. The original payment received of $9,450,000 in 1992 is being amortized to income over the life of the agreement. The Company has fulfilled the minimum purchase requirement in 1993 and expects to exceed the minimum required purchase levels in future years.

Citgo Petroleum Corporation

In 1986, the Company entered into a 20-year product purchase agreement with Citgo to buy specified quantities of gasoline at market prices. These prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750,000,000 gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases each year and expects to exceed the minimum required annual purchase levels in future years.

Contingencies

Gasoline Store Sites

The Company accrues future costs, as well as records the related probable state reimbursement amounts, for remediation of gasoline store sites where releases of regulated substances have been detected. At December 31, 1993, the Company's estimated liability for sites where releases have been detected was $59,153,000, of which $35,333,000 is included in Deferred Credits and Other Liabilities and the remainder in Other Liabilities and Accrued Expenses. The Company has recorded a receivable of $57,532,000 (net of an allowance of $12,529,000) for the estimated probable state reimbursements, of which

$52,238,000 is included in Other Assets and the remainder in Accounts and Notes Receivable. The estimated future remediation expenditures and related state reimbursement amounts could change as governmental requirements and state reimbursement programs change in future years.

The Company anticipates that substantially all of the future remediation costs for sites with detected releases of regulated substances at December 31, 1993, will be incurred within the next five years. There is no assurance of the timing of the receipt of state reimbursement funds. However, based on the Company's experience, the Company expects to receive state reimbursement funds within one to three years after incurring eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

Chemical Manufacturing Facility

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. As required, the Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection and Energy (the "State"), which provides for remediation of the site as well as continued groundwater monitoring for a number of years. While the Company has received initial comments from the State, a final clean-up plan has not been determined. The Company has adjusted its accrued liability to its best estimate of the clean-up costs of $38,879,000 at December 31, 1993. Of this amount, $33,795,000 is included in Deferred Credits and Other Liabilities and the remainder in Other Liabilities and Accrued Expenses.

The closed chemical manufacturing facility was previously owned by a large chemical company. In 1991, the Company and the former owner executed a final settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. The Company has recorded a receivable of $22,800,000 at December 31, 1993, representing the former owner's portion of the accrued clean-up costs. Of this amount, $19,800,000 is included in Other Assets and the remainder in Accounts and Notes Receivable.

15. INCOME TAXES

As of January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes." There was no cumulative effect adjustment upon adoption, and there was no effect on net earnings for the year ended December 31, 1993. As permitted, the Company has not restated the financial statements of prior years. Prior to January 1, 1993, income taxes were recorded using the deferred method specified by Accounting Principles Board Opinion No. 11, "Accounting for Income Taxes."

SFAS No. 109 requires the use of the liability method, in which deferred tax assets and liabilities are recognized for differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The components of Earnings (Loss) Before Income Taxes, Extraordinary Items and Cumulative Effect of Accounting Change are as follows:

	Years Ended December 31		
(Dollars in Thousands)	1993	1992	1991
Domestic	$ 3,795	$ (113,940)	$ (58,039)
Foreign	(6,375)	(6,009)	(8,309)
	$ (2,580)	$ (119,949)	$ (66,348)

The provision for income taxes in the accompanying Consolidated Statements of Operations consists of the following:

	Years Ended December 31		
(Dollars in Thousands)	1993	1992	1991
Current:			
Federal	$ 2,759	$ 4,560	$ —
Foreign	5,941	5,411	7,936
State	—	1,529	64
	$ 8,700	$ 11,500	$ 8,000

Reconciliations of income taxes at the federal statutory rate to the Company's actual income taxes provided are as follows:

	Years Ended December 31		
(Dollars in Thousands)	1993	1992	1991
Taxes (benefit) at federal statutory rate	$ (903)	$ (40,783)	$ 30,762
State income taxes, net of federal income tax benefit	—	1,009	42
Foreign taxes	5,941	5,411	7,936
Loss providing no current benefit	—	5,061	200,991
Amortization of cost in excess of tax basis	—	23,286	19,383
Portion of gain on debt restructuring not recognized for tax	—	—	(261,568)
Difference in LIFO as a result of purchase accounting	—	8,671	5,248
Equity in affiliates	1,907	3,148	3,966
Other	1,755	5,697	1,240
	$ 8,700	$ 11,500	$ 8,000

At December 31, 1993, the Company had approximately $16,000,000 of general business credit carryforwards, $6,000,000 of foreign tax credit carryforwards, $18,000,000 of alternative minimum tax ("AMT") credit carryforwards, an AMT net operating loss ("NOL") carryforward of $15,000,000 and a regular tax NOL carryforward of $9,000,000. The AMT credits have no expiration date, and the NOLs do not expire for 15 years. The general business credits expire during the period from 2001 to 2008, and the foreign tax credits expire in 1998.

At January 1, 1993 and December 31, 1993, the Company had net deferred tax assets, which were fully offset by a valuation allowance. The valuation allowance decreased by $21,817,000 in 1993 because the Company's net deferred tax asset decreased by a similar amount. The change in enacted tax rates during 1993 increased the Company's net deferred tax asset but had no effect on income tax expense because the assets are fully reserved through the valuation allowance.

Significant components of the Company's deferred tax assets and liabilities at December 31, 1993, are as follows (dollars in thousands):

Deferred tax assets:	
SFAS No. 15 interest	$ 139,831
Accrued liabilities	63,779
Accrued insurance	58,312
Tax credit carryforwards	43,562
Compensation and benefits	31,184
Debt issuance costs	21,658
Other	4,055
Subtotal	362,381
Deferred tax liabilities:	
Area license agreements	(99,932)
Property, plant and equipment	(40,206)
Other	(5,576)
Subtotal	(145,714)
Valuation allowance	(216,667)
Net deferred taxes	$ 0

16. EARNINGS (LOSS) PER COMMON SHARE

Primary earnings (loss) per common share is based on net earnings (loss) divided by the average number of shares, including the Warrants (unless the effect of considering the Warrants is antidilutive), outstanding during each year.

Earnings (loss) per share assuming full dilution is antidilutive and, therefore, is computed on the same basis as primary earnings (loss) per common share.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1993 and 1992 is as follows:

Year Ended December 31, 1993:

(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$1,582	$1,773	$1,780	$1,609	$6,744
Gross profit	350	418	434	371	1,573
Income taxes	2	2	2	3	9
Earnings (loss) before extraordinary items and cumulative effect of accounting change	(16)	19	22	(36)	(11)
Net earnings (loss)	(33)	19	121	(36)	71
Primary and fully diluted earnings (loss) per common share before extraordinary items and cumulative effect of accounting change	(.04)	.05	.05	(.09)	(.03)

The first quarter includes $16,537,000 of expense resulting from the cumulative effect of an accounting change for postemployment benefits (see Note 13). The third quarter includes a $98,968,000 extraordinary gain on redemption of debt related to the Refinancing (see Note 9) and a $10,300,000 loss on disposition of the Company's aviation facility (which was subsequently adjusted to a total loss of $10,814,000 in the fourth quarter). The fourth quarter includes a loss of $42,791,000 related to store closings and dispositions of properties, a LIFO credit of $9,051,000 primarily due to lower cigarette and gasoline prices, and $5,989,000 of expense resulting from a cost-cutting program associated with the Company's internal reorganization.

Year Ended December 31, 1992:

(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$1,763	$1,961	$1,988	$1,714	$7,426
Gross profit	352	422	445	386	1,605
Income taxes (benefit)	1	1	12	(2)	12
Net loss	(45)	(18)	(39)	(29)	(131)
Primary and fully diluted loss per common share	(.11)	(.04)	(.10)	(.07)	(.32)

The second quarter includes $17,500,000 of expense resulting from a cost-cutting program associated with the Company's internal reorganization. The third and fourth quarters include losses of $41,000,000 and $4,000,000, respectively, relating to the sale and closing of the distribution and food centers (see Note 6). In addition, the fourth quarter includes a loss of $30,720,000 related to store closings and dispositions of properties.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
The Southland Corporation
Dallas, Texas

We have audited the accompanying consolidated balance sheets of The Southland Corporation and Subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibiliry is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company for the year ended December 31, 1991 were audited by other auditors whose report dated March 27, 1992, included an explanatory paragraph that described the change in method of accounting for postretirement benefits other than pensions discussed in Note 13 to the 1991 financial statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Southland Corporation and Subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 13 to the financial statements, in 1993 the Company changed its method of accounting for postemployment benefits to conform with Statement of Financial Accounting Standards No. 112.

Coopers & Lybrand

Dallas, Texas
February 22, 1994

DIRECTORS

MASATOSHI ITO
Chairman;
Founder, Director and Advisor of
Ito-Yokado Group

TOSHIFUMI SUZUKI (1)
Vice Chairman;
President and Chief Executive Officer,
Ito-Yokado Co., Ltd;
Chairman and Chief Executive Officer,
Seven-Eleven Japan Co., Ltd.

JOHN P. THOMPSON
Co-Vice Chairman;
formerly Chairman,
The Southland Corporation

JERE W. THOMPSON
Co-Vice Chairman;
formerly President and
Chief Executive Officer,
The Southland Corporation

CLARK J. MATTHEWS, II
President and
Chief Executive Officer,
The Southland Corporation

YOSHITAMI ARAI
Chairman,
Systems International Incorporated

TIMOTHY ASHIDA (1)
President,
A.K.K. Associates Inc.

JAY W. CHAI (2)
Chairman and
Chief Executive Officer,
ITOCHU International, Inc.

GARY J. FERNANDES (1) (2)
Senior Vice President and
Director, Electronic Data
Systems Corporation

MASAAKI KAMATA
Executive Vice President,
Seven-Eleven Japan Co., Ltd.

KAZUO OTSUKA (1)
General Manager,
Corporate Development,
Ito-Yokado Co., Ltd.

ASHER O. PACHOLDER (2)
Chairman and Managing Director,
Pacholder Associates, Inc.

WALTER J. SALMON (2)*
Professor,
Senior Associate Dean and
Director, External Relations,
Harvard Business School

NOBUTAKE SATO
Executive Vice President,
Corporate Planning,
Ito-Yokado Co., Ltd.

TATSUHIRO SEKINE (2)**
Senior Managing Director,
Finance,
Ito-Yokado Co., Ltd.

(1) Compensation and Benefits Committee
(2) Audit Committee
* Resigned April 28, 1993
** Elected April 28, 1993

OFFICERS

MASATOSHI ITO
Chairman of the Board

TOSHIFUMI SUZUKI
Vice Chairman of the Board

CLARK J. MATTHEWS, II
President and
Chief Executive Officer

STEPHEN B. KRUMHOLZ
Executive Vice President
and Chief Operating Officer

JOHN H. RODGERS
Executive Vice President,
Chief Administrative Officer
and Secretary

RODNEY A. BREHM
Senior Vice President,
Foodservice and Distribution

JAMES W. KEYES
Senior Vice President,
Finance

MICHAEL K. ROEMER
Senior Vice President,
Merchandising

PAUL L. BUREAU, JR.
Vice President,
Corporate Tax

ADRIAN O. EVANS
Vice President,
Construction and Maintenance

DAVID M. FINLEY
Vice President,
Human Resources

STEPHEN B. LEROY
Vice President,
Real Estate and Licensed Operations

VERNON P. LOTMAN
Vice President and
Controller

CECILIA STUBBS NORWOOD
Vice President,
Corporate Communications

BRYAN F. SMITH, JR.
Vice President and
General Counsel

DAVID A. URBEL
Vice President, Planning
and Treasurer

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

The Southland Corporation
2711 North Haskell Ave.
Dallas, TX 75204-2906
(214) 828-7011

Mailing Address:
P.O. Box 711
Dallas, TX 75221-0711

FORM 10-K AND OTHER INVESTOR INFORMATION

Requests for the Form 10-K for the year ended December 31, 1993, and quarterly financial information should be addressed to the Investor Relations Manager at the above address, or telephone (214) 828-7328.

Annual reports are mailed to all shareholders. Investors may receive quarterly information regularly by requesting to be put on the company's mailing list.

A recorded company update can be reached and requests for information can be left 24 hours a day by calling (214) 828-7587.

ANNUAL MEETING

The annual meeting will be held at 9:30 a.m. CDT on Wednesday, April 27, 1994, in the Cityplace Conference Center at the company's headquarters. All shareholders and bondholders are cordially invited to attend.

AUDITORS

Coopers & Lybrand
Dallas, Texas

COMMON STOCK TRANSFER AGENT/REGISTRAR

Society National Bank
c/o Society Shareholder Services, Inc.
P.O. Box 2320
Dallas, Texas 75221-2320
From All Locations: 1-800-527-7844

COMMON STOCK

Southland's common stock is traded on the NASDAQ Small-Cap Market under the ticker symbol SLCMC. The stock is listed as "SouldCp h" in the NASDAQ Small-Cap chart of most major daily newspapers. There were 3,130 shareholders of record as of March 4, 1994.

The stock was issued on March 5, 1991, as part of Southland's restructuring. The company has not paid any dividends on its common equity since that time, and dividend payments are restricted by the indentures governing the company's outstanding securities and Southland's senior credit agreement.

The tables below set forth the high, low and closing bid prices for the periods indicated as provided by NASDAQ. These quotations reflect inter-dealer prices without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

	PRICE RANGE (BID)		
QUARTERS	HIGH	LOW	CLOSE
1993			
FIRST	\$ 3 1/2	\$ 2 31/32	\$ 3 1/2
SECOND	5 1/2	3 1/2	4 7/16
THIRD	6 1/16	4 1/4	5 1/4
FOURTH	7 5/8	5 5/16	6 5/8
1992			
FIRST	\$ 2 3/8	\$ 1 11/16	\$ 2 1/32
SECOND	2 1/32	1 1/4	1 3/4
THIRD	4 3/16	1 1/4	3 11/16
FOURTH	3 11/16	2 13/16	3

OTHER SECURITIES

The following other Southland securities are traded over the counter, and reported bond price information (updated Fridays) is available by calling the company's recorded message at (214) 828-7587:

5% First Priority Senior Subordinated Debentures due 2003
4½% Second Priority Senior Subordinated Debentures (Series A) due 2004
4% Second Priority Senior Subordinated Debentures (Series B) due 2004
12% Second Priority Senior Subordinated Debentures (Series C) due 2009

Common Stock Warrants (expire 2/23/96; exercisable at \$1.75 per share)

7-ELEVEN AROUND THE WORLD

UNITED STATES

Franchised	2,998
Company-operated	2,327

CANADA

Company-operated	471 (1)
	5,796

LICENSED OR OPERATED BY AFFILIATES(2)

Japan(3)	5,401
Taiwan	809
United States	693
Hong Kong	296
Thailand	271
Mexico	201
Australia	162
Malaysia	85
Singapore	75
South Korea	73
Spain	69
United Kingdom	50
Philippines	46
Norway	35
Sweden	31
Brazil	14
Puerto Rico	13
Turkey	12
China	10
Guam	7
Panama	5
Denmark	2
	8,360
	14,156

(1) The number of company-operated stores in Canada includes 17 locations in which Southland has no real estate interest.

(2) Sales from stores operated by licensees or affiliates are not included in Southland's "Net Sales." Royalties from licensees and equity in affiliates are included in "Other Income."

(3) The 7-Eleven licensee in Japan, Seven-Eleven Japan Co., Ltd., and its parent company, Ito-Yokado Co., Ltd., jointly own IYG Holding Company, which owns approximately 64% of Southland's common stock.

STATE/ PROVINCE	7-ELEVEN STORES	OTHER RETAIL	TOTAL
UNITED STATES:			
Arizona	102	0	102
California	1,212	3	1,215
Colorado	250	0	250
Connecticut	39	0	39
Delaware	27	0	27
District of Columbia	19	0	19
Florida	487	0	487
Idaho	14	0	14
Illinois	150	11	161
Indiana	16	4	20
Kansas	18	0	18
Maryland	325	39	364
Massachusetts	35	2	37
Michigan	99	0	99
Missouri	90	2	92
Nevada	187	0	187
New Hampshire	8	4	12
New Jersey	203	0	203
New York	221	0	221
North Carolina	8	0	8
Ohio	15	0	15
Oregon	139	0	139
Pennsylvania	173	5	178
Rhode Island	9	0	9
Texas	317	3	320
Utah	125	0	125
Virginia	628	23	651
Washington	266	0	266
West Virginia	26	4	30
Wisconsin	0	17	17
CANADA:			
Alberta	127	0	127
Manitoba	52	0	52
Ontario	116	0	116
British Columbia	139	0	139
Saskatchewan	37	0	37
TOTAL	5,679	117	5,796

All numbers as of December 31, 1993

THE SOUTHLAND CORPORATION
2711 North Haskell Avenue
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Phone: (214) 828-7011